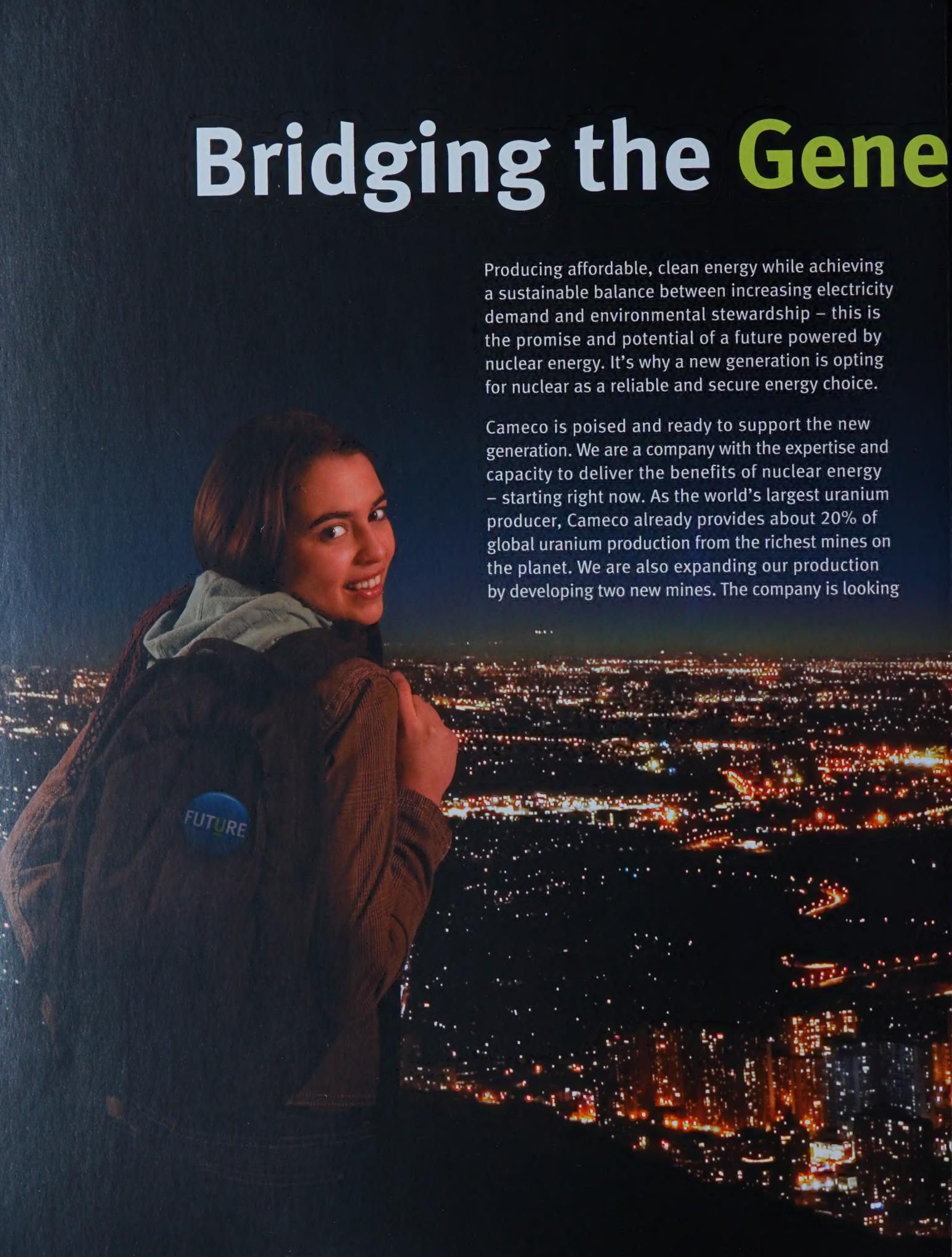


The Future is Nuclear

CAMECO
2005 ANNUAL REPORT

Bridging the Gene

A woman with short brown hair, wearing a dark brown corduroy hoodie with a small circular patch on the left shoulder that says "FUTURE" in white, is looking over her shoulder with a slight smile. She is positioned on the left side of the image. The background is a nighttime cityscape with numerous lights from buildings and streets.

Producing affordable, clean energy while achieving a sustainable balance between increasing electricity demand and environmental stewardship – this is the promise and potential of a future powered by nuclear energy. It's why a new generation is opting for nuclear as a reliable and secure energy choice.

Cameco is poised and ready to support the new generation. We are a company with the expertise and capacity to deliver the benefits of nuclear energy – starting right now. As the world's largest uranium producer, Cameco already provides about 20% of global uranium production from the richest mines on the planet. We are also expanding our production by developing two new mines. The company is looking

ration Gap



to the long-term nuclear future, seeking new reserves through a global exploration program with emphasis in North America and Australia. In nuclear fuel production, Cameco has 38% of the western world's UF_6 conversion capacity, and provides conversion services and fuel fabrication for Candu reactors. Power production rounds out Cameco's nuclear focus, with 1,000 MW of nuclear power in Ontario.

A new generation, attentive to the wisdom of scientists, environmentalists and consumers, understands the future is nuclear. Cameco knows nuclear and is ready for that future.

The choice being made by a new generation makes Cameco the nuclear investment of choice.



OUR PROFILE

Cameco, with its head office in Saskatoon, Saskatchewan, is the world's largest uranium producer as well as a significant supplier of conversion services. The company's competitive position is based on its controlling ownership of the world's largest high-grade reserves and low-cost operations. Cameco's uranium products are used to generate clean electricity in nuclear power plants around the world, including Ontario where the company is a partner in North America's largest nuclear electricity generating facility. The company also explores for uranium in North America and Australia, while holding a majority interest in a mid-tier gold company. Cameco's shares trade on the Toronto and New York stock exchanges.



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Our future is clear.

LETTER FROM THE CHAIR



► From Hong Kong to Toronto, nuclear energy brightens cities around the world.



“Cameco, through the solid and strategic efforts of the past, is well positioned to continue growing towards our vision to be a dominant nuclear energy company.”

◀ CHAIR VICTOR J. ZALESCHKU

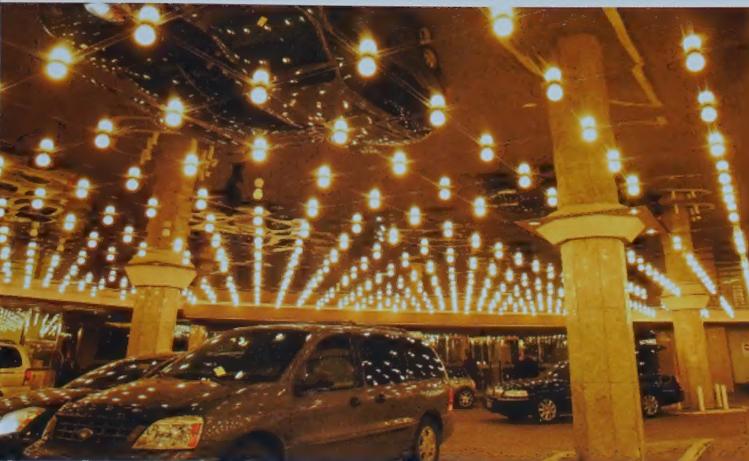
We at Cameco take corporate governance very seriously. Has our level of integrity and morality increased as a result of all the recent legislation and regulation concerning governance? I don't believe so because it has always been our priority to operate at the highest levels. But, over the past several years we have formalized the policies and procedures required, and disseminated them throughout our entire organization to ensure there is a clear understanding of our intentions and expectations. Continual review and improvement of our policies and procedures ensure we remain on course to achieve our objectives.

The culmination of these efforts places an added burden on our talented employees and on board members. We do, however, feel that these efforts are worthwhile and are good for Cameco's business and bottom line.

I am especially pleased by the board's dedication to ensuring Cameco has outstanding leadership in its various levels of management, that succession planning is continually monitored, and that employees throughout the organization are motivated and rewarded to create shareholder value.

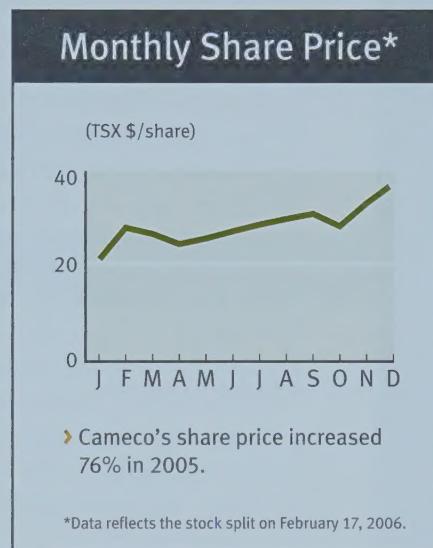
The energy industry is in the midst of a renaissance and uranium is becoming a vital piece of the world's future energy needs. Cameco, as the world's largest uranium producer, has amassed an extraordinary reserve base and is ready to respond to the world's need for safe, reliable and clean electricity.

◀ In 2007, the Cigar Lake mine will add another low-cost, high-grade source of uranium to Cameco's already impressive production portfolio.



The market has demonstrated its confidence in our ability to deliver results as shown by our share performance over the past year. Our continuing belief that we are on track to grow our business led us to the decision to split the stock and increase the dividend on February 17, 2006.

I would also like to take this opportunity to welcome our new board member, Mr. John Clappison, who recently retired as managing partner of PricewaterhouseCoopers' Toronto office. Mr. Clappison brings a wealth of business and accounting experience, as well as



leadership skills to Cameco. We look forward to working with Mr. Clappison for many years to come.

Each new year brings new business challenges, as well as the desire to outperform the previous year. Cameco, through the solid and strategic efforts of the past, is well positioned to continue growing towards our vision to be a dominant nuclear energy company.

Victor J. Zaleschuk
Chair

MARCH 17, 2006

Our Vision

Cameco will be a dominant nuclear energy company producing uranium fuel and generating clean electricity.

Our Mission

Our mission is to bring the multiple benefits of nuclear energy to the world. We are a global supplier of uranium fuel and a growing supplier of clean electricity.

We deliver superior shareholder value by combining our extraordinary assets, exceptional employee expertise and unique industry knowledge to meet the world's rising demand for clean, safe and reliable energy.

The key measures of our success are: a safe, healthy and rewarding workplace, a clean environment, supportive communities and outstanding financial performance.

Our Values

SAFETY AND ENVIRONMENT

The safety of people and protection of the environment are the foundations of our work. All of us share in the responsibility of continually improving the safety of our workplace and the quality of our environment.

PEOPLE

We value the contribution of every employee and we treat people fairly

by demonstrating our respect for individual dignity, creativity and cultural diversity. By being open and honest we achieve the strong relationships we seek.

INTEGRITY

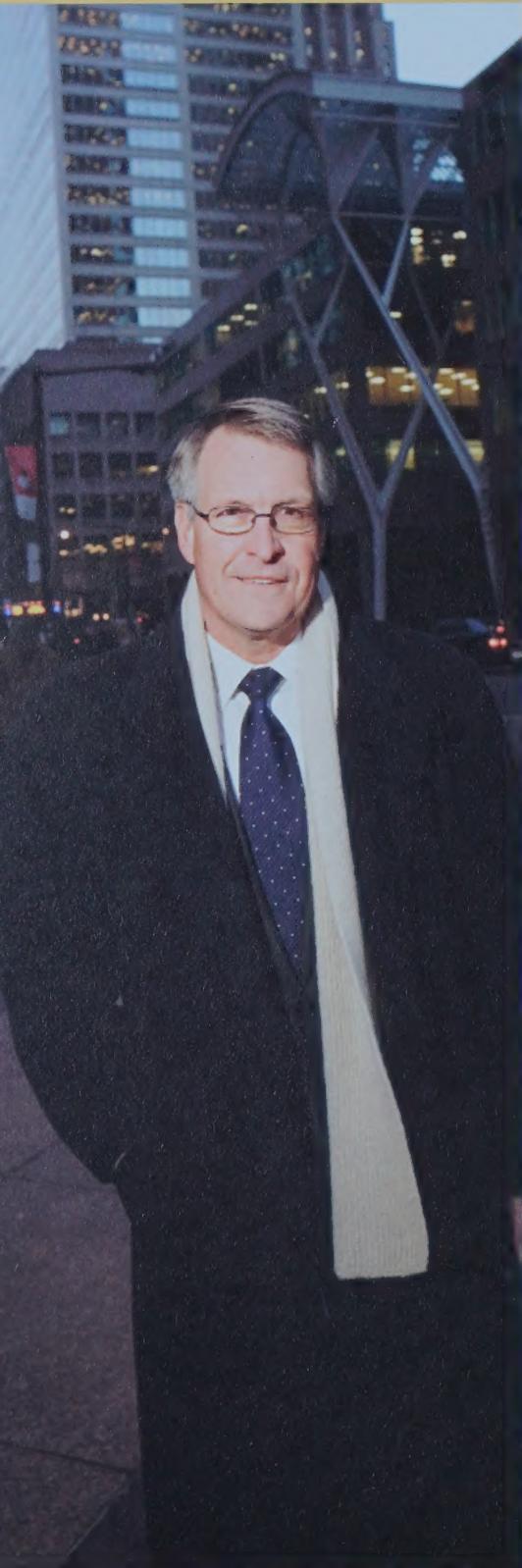
Through personal and professional integrity, we lead by example, earn trust, honour our commitments and conduct our business ethically.

EXCELLENCE

We pursue excellence in all that we do. Through leadership, collaboration and innovation, we strive to achieve our full potential and inspire others to reach theirs.

Our future is nuclear.

MESSAGE TO SHAREHOLDERS



“With the nuclear renaissance firmly under way, the industry will build on the successes of the past year.”



Cameco is at the forefront of a worldwide rebirth of nuclear energy. We're leading the way, answering questions that demonstrate Cameco is poised to deliver the environmental, energy security and cost benefits nuclear power will provide.

What were your successes and failures in 2005?

This past year has been transformational for Cameco. The construction of two new, low-cost uranium mines, the utilization of excess capacity at our refining facility, the increase in conversion supply and the creation of value through a series of transactions has bolstered our foundation for the next wave of growth. We did this in pursuit of our vision to be a dominant nuclear energy company producing uranium fuel and generating clean electricity. Equally important, we adhered to our values and to our four measures of success: a safe, healthy and rewarding workplace, a clean environment, supportive communities and outstanding financial performance.

During the year, Cameco met its uranium production targets, exceeded its refining objective in anticipation of supplying UO_3 to Springfields, but fell short of its UF_6 conversion targets by about 17%. The difficulties experienced in our Port Hope conversion facility were particularly vexing as they persisted in spite of vigorous efforts by our dedicated employees to overcome them.

Sales for the year were slightly above plan and new uranium and conversion contracting exceeded expectations by a wide margin in response to very strong market demand. Contracts negotiated during the year captured rising prices and will help mitigate exposure to any future market weakness while preserving price upside.

All of this transpired while maintaining our exemplary safety and health record – not an easy task when two major mine construction projects were under way. And, while there were no significant releases to the environment, as always, improving this performance is a major focus for 2006.

What are your highest priorities?

Cameco is extraordinarily well blessed with abundant geographically diverse reserves, low-cost operations, good customers and talented people. The first priority, then, is to enhance these assets, making sure that they are not taken for granted, while maximizing their potential. The best way I know to achieve this is by augmenting our leadership skills at all levels and by developing and nurturing the next generation of Cameco leaders. Every aspect of our daily effort to create value involves leadership, whether it be leading a team, being innovative or finding a new level of excellence.

Accordingly, we have defined the leadership characteristics we look for and promote, and we have embarked on a mission to implement them throughout the company. We will use these characteristics to help us judge our individual and collective effectiveness and to guide our response to growth.

By focusing on leadership at all levels we are already unleashing creativity and overcoming long-standing pockets of disengagement. Jobs are becoming broader in scope, more stimulating and, above all, more fun. And, importantly, by improving our leadership skills we secure the path that advances toward our long-term vision – the vision that will continue to create substantial value for all of our stakeholders.

What news or events in 2006 would represent a major breakthrough for the nuclear industry?

The last year was distinguished by a number of astonishing developments in the world of nuclear energy – developments that set the stage for additional breakthroughs in 2006.

Countries representing over one-half the world's population are now building new nuclear power plants, and several others without the benefit of nuclear energy are planning for them. China and India are notable with their aggressive building programs to meet insatiable energy appetites. Energy legislation passed in the United States last August recognized, for the first time at a national level, the clean air benefits of nuclear energy and provided the encouragement to jump-start the construction of a new generation of nuclear plants. And, remarkably, several icons of the environmental movement abandoned their anti-nuclear dogma and came out strongly in favour of an accelerated nuclear construction program to mitigate the consequences of global warming.

So, with the nuclear renaissance firmly under way, I believe that a major breakthrough in 2006 could include such things as new plant designs. New plant designs will advance toward certification and additional plants will be ordered from vendors, providing irrefutable evidence that the next generation of plants can be competitive. A number of countries with burgeoning energy demand will announce their first entry into nuclear plant construction. Already we've seen announcements from Indonesia, Vietnam and Turkey. And utilities in the US will advance their site licensing initiatives, positioning themselves to join Asia and Europe in ordering new plants.

Highlights

FINANCIAL

(\$ millions except per share amounts)

	2005	2004	change
Revenue	1,313	1,048	25%
Net earnings	218	279	(22%)
Earnings per share - diluted ¹	0.60	0.78	(23%)
Cash provided by operations	278	228	22%
Cash flow per share ¹	0.80	0.67	19%
Adjusted net earnings ²	211	185	14%
Average uranium (U ₃ O ₈) spot price for the year (\$US/lb U ₃ O ₈)	28.67	18.60	54%
Average realized uranium price for the year			
- \$US/lb U ₃ O ₈	15.45	12.89	20%
- \$Cdn/lb U ₃ O ₈	20.14	17.97	12%
Average Ontario electricity spot price (\$/MWh)	68	50	36%
Average realized electricity price (\$/MWh)	58	47	23%
Average spot market gold price for the year (\$US/ounce)	445	409	9%
Average realized gold price for the year (\$US/ounce)	433	397	9%
Weighted average number of paid common shares (millions) ¹	347.8	342.8	1%
Net debt to capitalization	9%	13%	(31%)
Production (Cameco's share)			
Uranium concentrates (million lbs U ₃ O ₈)	21.2	20.5	3%
Uranium conversion (UF ₆ and UO ₂) (million kgU)	11.4	9.5	20%
Electricity generation (terawatt hours)	9.7	10.6	(9%)
Gold (thousand ounces) ³	407.4	321.6	27%

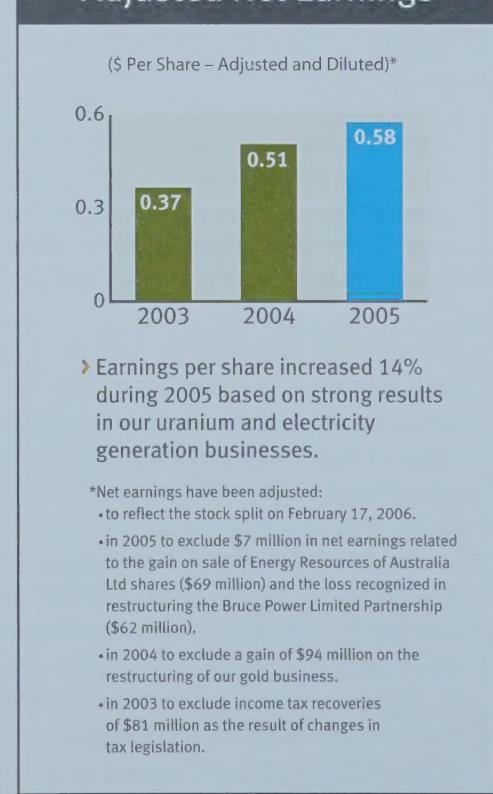
¹ Data reflects the stock split on February 17, 2006.

² Net earnings have been adjusted for a \$7 million net gain from the sale of Energy Resources of Australia Ltd shares (\$69 million) and the loss on restructuring Bruce Power Limited Partnership (\$62 million) in 2005 and a \$94 million gain on the restructuring of our gold business in 2004.

³ Represents Cameco's beneficial ownership interest in the Kumtor and Boroo mines.

Note: All dollar amounts expressed in Canadian dollars unless otherwise noted.

Adjusted Net Earnings





» Air filter stations like this one at Rabbit Lake help monitor air quality at all Cameco's operations.

Three other things of notable significance could occur in 2006. First, trade in nuclear technology with India is likely to be approved by the vast majority of countries who are signatory to the Non-Proliferation Treaty. If so, India will be able to purchase uranium from other countries to supply its rapidly escalating requirements for its nuclear power program. Second, several countries are likely to make significant progress in demonstrating the safe disposal of used fuel while preserving the option of recycling for future energy requirements. And third, countries that have stepped outside the bounds of the Non-Proliferation Treaty will be encouraged to return.

Will Cameco change its contracting strategy to get more benefit from higher uranium prices?

Marketing uranium and conversion services is a relationship business. Unlike gold and base metals, there is no central selling organization or exchange. Cameco's uranium, then, is sold under long-term contracts negotiated individually with each of our valued utility customers. Volumes sold on the spot market in aggregate represent only 10% to 15% of annual global uranium consumption, and are far too small and infrequent for a major producer like Cameco to rely on. Customers with highly valued nuclear plants that now have life extensions and only operate on uranium, eschew dependence on the spot market, preferring the security provided by long-term contracts with a reliable supplier. It is

very unlikely that customers would leave themselves exposed in any significant way to the vagaries of the spot market.

When prices were low due to inventory liquidation and with the abundance of supply, contracting favoured the buyer with quantity flexibility and low fixed and ceiling price protection. Now that supplies are more difficult to find, fixed prices have increased and ceiling price protection has either disappeared or been lifted to very high levels. Quantity flexibility has been eliminated or severely curtailed and more recently floor price protection for the seller has been available. Perhaps the most significant change is contract duration. When prices were low, utilities had little concern about uranium supplies and Cameco kept contract delivery terms short (three to four years). Today, contract durations of five to 10 years are common as both customer and supplier are placing much greater emphasis on long-term relationships.

During the recent period of rapid price increase, Cameco has retained its traditional portfolio weighting - 40% fixed pricing adjusted for inflation and 60% related to the market price (spot and long-term) at the time of delivery. Given the investments in growth we are making and the volatility inherent in any commodity, with uranium being no exception, we believe this balance is prudent. As we succeed, however, in obtaining meaningful floor price protection in our market-related contracts we review this strategy in light of our market expectations.

Do you believe current uranium prices adequately reflect the value of uranium? Do you believe forward demand will further increase the price of uranium?

These two questions are frequently asked and five years ago were much easier to answer. Although one can legitimately argue that uranium has never found its true value given past government procurement practices and price regulation, followed by decades of inventory liquidation, uranium will eventually find an equilibrium value. Perhaps the most important factor in determining this will be the future value of the US dollar since most production is located outside the borders of the US. As the dollar depreciates, producer revenue shrinks, offsetting some of the appreciation in uranium price. Compound this currency uncertainty with changing inventory policies, the presence of speculators and the prospects for demand acceleration due to increased capacity utilization and new construction, and the crystal ball gets even more opaque.

Events over the past year reflect the strong market fundamentals, as existing and new producers responded to the rising price. Many of the uranium deposits being evaluated and reactivated today were last produced 25 years ago. But perhaps the bigger unanswered questions for producers are: what is the price required to bring these properties into production and what is the timing by which that production could be supplied to the market?

Inventories in large quantities still exist and whether they are considered strategic or available is a function of one's view of future price and, in the case of Russia, internal requirements. Undeveloped lower-cost deposits also exist and their availability will be determined by such factors as permitting lead times,

politics, co-product pricing and technical constraints. We now expect demand will grow at a faster rate given the renewed interest in nuclear technology and, toward the beginning of the next decade, the "first core" effect will place an added burden on supply. Uranium prices, like any commodity, will rise and fall over time as answers to the many uncertainties appear and the struggle for equilibrium unfolds between growing demand and the range of available supplies.

How high can the uranium price go?

I've heard and seen some pretty high numbers recently. Every time I encounter such prognostications, I am reminded of the last uranium price boom when there were many pundits predicting \$100 per pound or higher. My answer to the previous question illustrates the many variables and just how difficult it is to forecast price. Inventories remain exceedingly important and any significant shift toward rebuilding inventories would add near-term pressure to the market. Similarly, any lengthy disruption to a major supply source, for technical or political reasons, could see prices rise dramatically. And, finally, we have already seen the market effect from speculators. Any significant increase in this activity could produce a price response in the spot market, given its lack of depth. But, any of these are temporary and, over time, the longer term price will depend on supply and demand fundamentals.

07

Are you confident Cameco will discover the next high-grade uranium mine?

Yes. I have great confidence in our ability to discover the next high-grade deposit. During the low-price environment of the past two decades, Cameco invested sufficient funds to:

- retain its large land position in the best hunting ground, Saskatchewan's Athabasca Basin,
- establish a large property position in Arnhem Land in the Northern Territory of Australia outside Kakadu National Park, and
- look more globally for prospective areas.

Even more important, we maintained and broadened our unique expertise in uranium exploration and discovery, contained within our talented exploration group. As the uranium price increased during the last two years, we have almost doubled our exploration budget and aggressively recruited new talent. Today, we are exploring



◀ Key Lake mill lab technologist James Southam measures uranium concentration in a mill sample using an X-ray fluorescence spectrometer.



"We will build on our strong foundation to take Cameco to the next level."

in both northern Saskatchewan and in Australia, and land positions have been secured elsewhere in areas having promise. Perhaps most prospective in the near-term, are areas around our existing mines as exemplified by the resource additions at Rabbit Lake and by the promising drilling results last year adjacent to our McArthur River mine.

Uranium is an abundant element, some 40 times more common than silver. We know that significant deposits are out there to meet the expanding needs of the rejuvenated industry. It is just a matter of money, time and talent.

After reducing your investment in Bruce Power, do you still plan to grow in the nuclear power generation business?

This question, too, is answered affirmatively. Increasing our participation in nuclear generation is consistent with our vision. But, as we have explained when we decided not to invest in the Bruce A reactors, any investment we make must meet our financial and risk requirements. As much as we would have liked to expand our involvement in the Bruce A reactors, the proposed refurbishment did not meet our criteria. We continue to look for other opportunities, although I would observe that the economic and environmental advantages of existing



► Nuclear reactors around the world use fuel that is processed at Cameco's conversion facility in Port Hope, Ontario.

nuclear generators is being increasingly recognized. There are now many parties interested in owning nuclear energy plants leading to a very competitive field. Absent special circumstances, it is doubtful that Cameco can obtain, from an investment in an existing plant, the return required to meet our financial hurdles. Thus, we will continue to observe and look for the right opportunities while vigorously pursuing growth in other areas that support our vision.

In what business areas do you believe Cameco will get its best returns for shareholders? Are there near-term investment opportunities in these areas?

Over the history of Cameco, returns have varied by business segment illustrating the value of diversity and vertical integration. In the commodity business, and here I include electricity generated in a deregulated market, returns are predominately a function of price. Of course, cost of production is important, but this tends to be much more stable over time as efficiencies offset inflationary pressures. Currently, all prices influencing Cameco's financial performance are robust. The two areas with the strongest longer-term fundamentals appear to be uranium and nuclear electricity production. For the reasons outlined previously, we are hesitant to invest in additional generation and are currently focused on expanding our uranium production capability. Two projects, Cigar Lake and Inkai, are being developed and promise to provide solid returns.

Exploration expenditures to find the next economically viable deposits have been substantially increased; but the time from discovery to development is lengthy. Additionally, we watch the success of others in identifying and developing new

Uranium Spot Price





➤ Mine foreman Darren Woods is part of the McArthur River team that produced 18.7 million pounds of U_3O_8 in 2005. Cameco owns 70% and is the operator of McArthur River, the world's largest high-grade uranium mine.

deposits and hope that Cameco will be viewed as a partner of choice based upon our financial capability and technical expertise. Cameco will also continue to look vertically. The opportunities are scarce, but we believe there are a number that have the potential to add significant value.

Is Cameco's share price overvalued? Why should we expect it to rise over the coming year or two?

The share price of Cameco has appreciated in excess of 200% over the past three years delivering to our shareholders considerable value. Its rise has been correlated mostly with the increase in the price of uranium, but at times with energy and precious metal prices. Some observers argue that Cameco shares are expensive. Whether true or not, it is something over which we have little or no control. The best we can do is run the business competently, always mindful of adding value.

High valuations often reflect scarcity, but I would argue that in the case of Cameco, it is a manifestation of our vision of a robust nuclear future and the quality of our underlying assets. In pursuit of its vision, Cameco has put together a low-cost, geographically diversified suite of production assets in both uranium refining and conversion. They are long-lived and their output is delivered into a portfolio of contracts which now reflect much improved market conditions.

The confidence our shareholders have shown in us also represents, I believe, confidence in the future of nuclear energy and in our ability to seize opportunities. If this past year illustrated anything, it was the agility we show in pursuing our vision. The combination of Springfields,

Zircatec, Energy Resources of Australia Ltd (ERA), and Bruce Power restructuring demonstrate the range of decisions and their underlying rationale as we pursue growth relentlessly.

What keeps you awake at night?

Frankly I sleep very well knowing that Cameco is blessed with an exceptional complement of very talented people. We pay attention to developing this talent and ensuring that we are capable of meeting the challenges we know will come our way.

Looking after the work environment – making sure that it is safe, healthy and rewarding – is one area that gets a lot of focus. We can never neglect our commitment to continual improvement in these areas, particularly given the special challenges experienced in mining and nuclear energy. I am very proud that our safety record is considerably better than the mining and chemical industries. Still, we can do better.

In answering the previous 10 questions you can see that I also spend a lot of time thinking about our strategic direction and growth. Here, again, I am very proud of what we have achieved, particularly in the past year. The actions taken provide the foundation from which we will be able to take Cameco to the next level.

Gerald W. Grandey
President and Chief Executive Officer

MARCH 17, 2006

Aim high.

OBJECTIVES, GOALS AND RESULTS



VISION

Cameco will be a dominant nuclear energy company producing uranium fuel and generating clean electricity.



2005 OBJECTIVES

goal **Safe, Healthy and Rewarding Workplace**

Strive to achieve no lost-time injuries at all Cameco-operated sites and maintain a long-term downward trend in employee and long-term contractor injury frequency and severity.

Finalize and begin implementing a long-term people strategy to align core human resources programs and prepare for growth and increasing retirement levels.

goal **Clean Environment**

Incur no significant environmental incident.

Continue to improve the Cameco Incident Reporting System (CIRS) for recording, classifying, tracking, monitoring, reporting and learning from safety, environmental and operational incidents at all Cameco-operated sites.

goal **Supportive Communities**

Purchase from northern Saskatchewan businesses at least 75% in value of the contracted services at Cameco's Saskatchewan mines.

goal **Outstanding Financial Performance**

Pursue additional growth opportunities in the nuclear fuel cycle.

Increase Cameco's share of uranium production to 21.2 million pounds U₃O₈ or higher in 2005 by obtaining regulatory approval to increase McArthur River and Key Lake production capacity to 22 million pounds U₃O₈.

Submit an environmental assessment and design plan for the commercial facility at Inkai to the Kazakh authorities in 2005 in order to obtain regulatory approval to proceed with construction.

Commence the Cigar Lake licensing process to ensure the operating licence is obtained from the CNSC to allow for possible production in mid-2007.

Complete 50% of shaft development, and 70% of underground development at Cigar Lake.

Continue to expand exploration activity to ensure timely replacement of reserves.

2005 RESULTS

- Cameco's accident frequency was 0.33 per 200,000 hours worked. Overall safety performance was comparable to previous years.
- The long-term strategy was finalized and a multi-site human resources council was created to assist with corporate-wide implementation. The strategy implementation involves a series of goals supported by such drivers as workforce capacity, employee engagement, leadership and relationships.

- There were no significant incidents at any Cameco-operated site. Overall, environmental performance showing year-over-year continual improvement was not met.
- A thorough understanding of the essential system requirements was gained to make CIRS a useful tool. A detailed schedule and budget was also developed.

- Cameco purchased \$163 million in services from northern Saskatchewan businesses representing 85% of the total purchases for the company's Saskatchewan mines.

- Cameco's western world conversion supply capacity increased to 38% through a toll-processing agreement in the United Kingdom.
- Cameco acquired 100% of Zircatec, a manufacturer of nuclear fuel bundles. Cameco is now involved in all stages of the Candu nuclear fuel cycle.
- Cameco achieved its production target but did not receive permission to expand. Currently the CNSC is evaluating the process to complete its review of the impacts associated with the expansion. When identified, a better estimate as to the time required for a CNSC decision will become apparent.
- Kazakh authorities approved Inkai construction which continues with commercial operation scheduled for 2007.

- Cameco made progress on the supporting documentation required to move forward with the operating licence application.
- At the end of 2005, the development of the second shaft was about 85% complete and development of the underground workings was about 55% complete.
- Reserve replacement program was again successful at Rabbit Lake and promising results were achieved at four projects in northern Saskatchewan (Millennium, Dawn Lake, Collins Creek and Virgin River). Cameco also commenced exploration on several new land positions including projects in Nunavut, Northwest Territories, Quebec and Australia.

2006 OBJECTIVES

Strive to achieve no lost-time injuries at all Cameco-operated sites and maintain a long-term downward trend in employee and long-term contractor injury frequency and severity.

Implement the 2006 action plans in Cameco's long-term people strategy.

Incur no significant environmental incidents and show continual improvement in reducing the total number of environmental incidents.

Enhance environmental leadership by demonstrating excellence in meeting regulatory commitments.

Purchase from northern Saskatchewan businesses at least 75% in value of the contracted services at Cameco's Saskatchewan mines.

Implement a community development fund in the Inkai project region in Kazakhstan.

Pursue additional growth opportunities in the nuclear fuel cycle.

Obtain production licence increase to 22 million pounds U₃O₈ from the CNSC for the McArthur River and Key Lake operations.

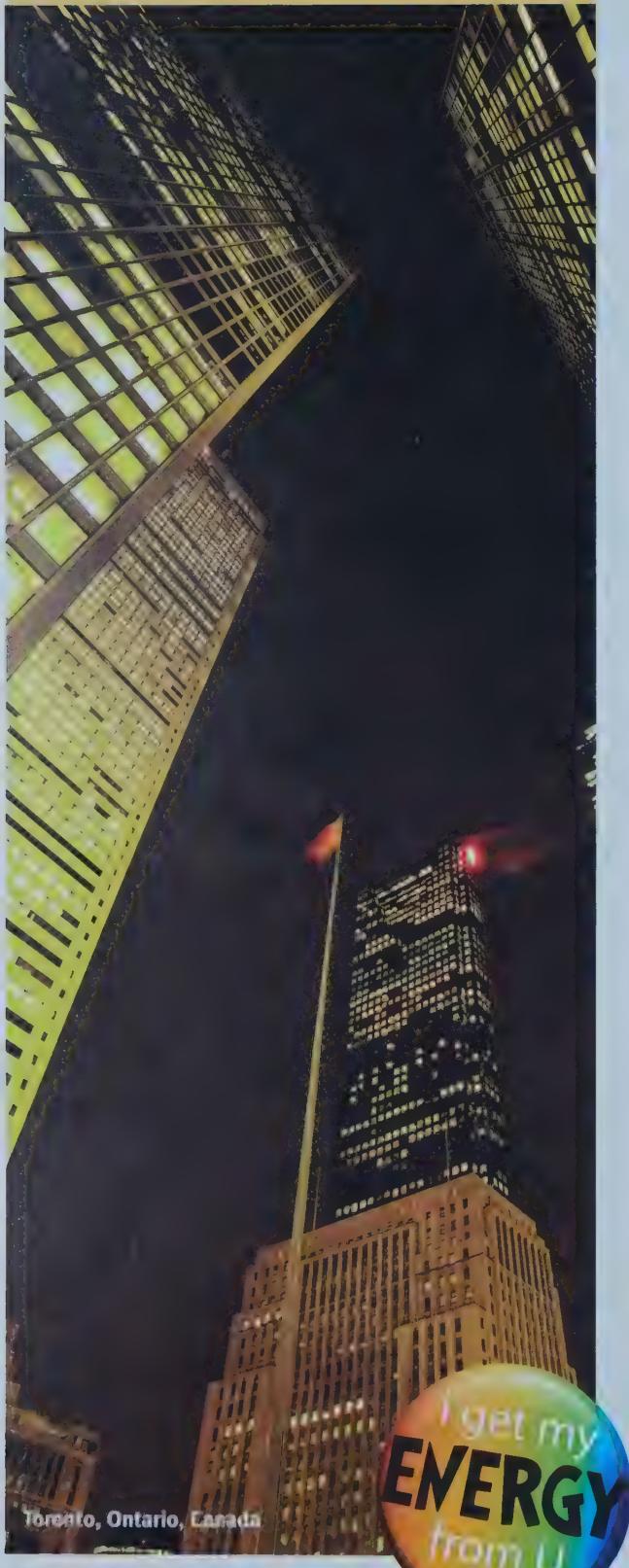
Commence commissioning of the jet boring mining method at Cigar Lake.

Continue the process to obtain the operating licence for Cigar Lake from the CNSC for startup in mid-2007.

Continue to advance and expand exploration activity to ensure timely replacement of reserves.

We see the future.

MANAGEMENT'S DISCUSSION & ANALYSIS



How to use this MD&A

This management's discussion and analysis (MD&A) is designed to provide investors with an informed discussion of Cameco's business activities and reflects events known to management to March 17, 2006. The MD&A is intended to supplement and complement our audited consolidated financial statements and notes thereto for the year ended December 31, 2005, prepared in accordance with Canadian generally accepted accounting principles (GAAP), (collectively our financial statements). As required by securities authorities, a reconciliation of our Canadian GAAP financial statements to US GAAP is included in note 25 to the consolidated financial statements. You are encouraged to review our financial statements in conjunction with your review of this MD&A. Additional information relating to the company, including our annual information form, is available on SEDAR at sedar.com. For information on Cameco's uranium and gold reserves and resources, see Cameco's annual information form or annual report under "Reserves and Resources." All dollar amounts are in Canadian dollars, unless otherwise specified. The financial information in this MD&A has been prepared in accordance with Canadian GAAP, unless otherwise indicated. All sensitivities in this MD&A noted for 2006 reflect the potential impact for the full year.

Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For more detail on these factors, see the section titled "Caution Regarding Forward-Looking Information" in this MD&A.

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 Nuclear energy provides 50% of Ontario's total electricity.

VISION

Cameco will be a dominant nuclear energy company producing uranium fuel and generating clean electricity.

MISSION

Our mission is to bring the multiple benefits of nuclear energy to the world. We are a global supplier of uranium fuel and a growing supplier of clean electricity.

We deliver superior shareholder value by combining our extraordinary assets, exceptional employee expertise and unique industry knowledge to meet the world's rising demand for clean, safe and reliable energy.

The key measures of our success are a safe, healthy and rewarding workplace, a clean environment, supportive communities and outstanding financial performance.

VALUES**SAFETY AND ENVIRONMENT**

The safety of people and protection of the environment are the foundations of our work. All of us share in the responsibility of continually improving the safety of our workplace and the quality of our environment.

PEOPLE

We value the contribution of every employee and we treat people fairly by demonstrating our respect for individual dignity, creativity and cultural diversity. By being open and honest we achieve the strong relationships we seek.

INTEGRITY

Through personal and professional integrity, we lead by example, earn trust, honour our commitments and conduct our business ethically.

EXCELLENCE

We pursue excellence in all that we do. Through leadership, collaboration and innovation, we strive to achieve our full potential and inspire others to reach theirs.

Customer Countries

› Argentina	› France	› Sweden
› Belgium	› Germany	› Taiwan
› Canada	› Japan	› United Kingdom
› Czech Republic	› South Korea	› United States
› Finland	› Spain	

Cameco is involved in four business segments:

- uranium,
- fuel services,
- nuclear electricity generation, and
- gold.

The only significant commercial use for uranium is to fuel nuclear power plants for the generation of electricity. In recent years, nuclear plants generated about 16% of the world's electricity.

NUCLEAR FUEL

The major stages in the production of nuclear fuel are uranium exploration, mining and milling, refining and conversion, enrichment and fuel fabrication. Once a commercial uranium deposit is discovered and reserves delineated, regulatory approval to mine is sought. Following regulatory approval, the mine is developed, and ore is extracted and processed at a mill to produce uranium concentrates. Mining companies sell uranium concentrates to nuclear electricity generating companies around the world on the basis of the U_3O_8 contained in the concentrates. These utilities then contract with converters, enrichers and fuel fabricators to produce the required reactor fuel.

URANIUM

Cameco is the world's largest uranium producer, accounting for 20% of the world's production in 2005 and backed by more than 525 million pounds of proven and probable reserves of uranium. We have controlling ownership of the world's largest high-grade uranium reserves and low-cost operations located in northern Saskatchewan. Cameco operates four mines in Canada and the United States, and has two mines under development in Canada and Central Asia.

FUEL SERVICES

The company is an integrated uranium fuel supplier with refining facilities at Blind River and fuel services facilities (conversion and fuel fabrication) at Port Hope, both located in Ontario, Canada.

The Blind River facility refines uranium concentrates into uranium trioxide (UO_3), an intermediate product in the uranium conversion process. Our Port Hope conversion services plants chemically change the form of the UO_3 to either uranium hexafluoride (UF_6) or uranium dioxide (UO_2). Port Hope has the licensed capacity to produce almost 20% of the world's annual requirements of UF_6 used in making fuel for light water reactors. In 2005, Cameco signed a toll-conversion agreement to acquire UF_6 conversion

services from Springfields Fuels Ltd. (Springfields) in Lancashire, United Kingdom. Under the 10-year agreement, Springfields will annually convert a base quantity of 5 million kgU as UO₃ to UF₆ for Cameco. This arrangement increases our UF₆ conversion capacity by 40%. In addition, Port Hope is the world's only commercial producer of natural UO₂, the fuel used by all Canadian-designed Candu reactors.

During early 2006, Cameco became a nuclear fuel manufacturer by acquiring Zircatec Precision Industries, Inc. (Zircatec) in Port Hope. This company manufactures fuel bundles for use in Candu reactors. With this acquisition, Cameco now covers all stages of the Candu nuclear fuel cycle.

NUCLEAR ELECTRICITY GENERATION

Cameco generates clean electricity through its 31.6% interest in the Bruce Power Limited Partnership (BPLP), which operates the four Bruce B nuclear reactors and manages the overall site located in southern Ontario. Cameco is the fuel procurement manager for uranium, conversion services and fuel fabrication for Bruce Power's four B nuclear reactors. For the Bruce A reactors, Cameco is the fuel procurement manager for conversion services and fuel fabrication. In 2005, through the Bruce Power restructuring, Cameco no longer holds a 31.6% ownership in the four A reactors. Bruce Power's four B reactors have a combined net generation capacity of about 3,200 megawatts (MW), supplying about 17% of Ontario's electricity.

GOLD

Cameco has a 52.7% interest in Centerra Gold Inc. (Centerra), which began trading on the Toronto Stock Exchange in June 2004. Cameco transferred substantially all its gold assets to Centerra as part of the strategy to unlock the value of those assets. Centerra is a growth-orientated Canadian-based gold producer focused on acquiring, exploring and developing gold properties in Central Asia, the former Soviet Union and other emerging markets. Centerra operates two gold mines, located in the Kyrgyz Republic and Mongolia.

- continue vertical integration, and
- promote growth in the nuclear energy industry.

Our specific strategies in the uranium and fuel services businesses – the company's core businesses – are discussed under the sections "Uranium Strategies" and "Fuel Services Strategies" respectively, in this MD&A.

In pursuing further integration in nuclear fuel supply and expansion in nuclear power generation, our goals are to:

- add significantly to shareholder value, through new opportunities within the nuclear fuel cycle,
- secure projects that have an attractive rate of return and provide a basis for long-term profitability,
- provide fuel supply, engage Cameco's operational and management expertise, and achieve synergies in fuel supply logistics and market position,
- capture the value added to uranium in each step of the fuel cycle, including its enormous energy value in the final generation of electricity,
- strengthen Cameco's foundation for further expansion in the nuclear fuel cycle, and
- ensure each investment has a prudent risk/reward ratio.

The key strategies are to:

- maximize choice by considering acquisition and investment opportunities in all aspects of the nuclear fuel cycle,
- seek opportunities to facilitate change in the nuclear industry by supporting or leading the development, assessment, or licensing of new technology,
- guide and encourage Bruce Power's growth strategy,
- pursue partnering opportunities throughout the nuclear fuel cycle by leveraging fuel-supply relationships, and by enhancing relationships with industry leaders in nuclear technology,
- seek active ownership by structuring each investment to allow management participation and, where possible, operational involvement, and
- seek to maximize nuclear power's contribution to global energy supply through two major strategies to:
 - promote industry initiatives to position nuclear power as a major part of the solution in addressing clean air and climate change by providing leadership and resources to key industry associations and by developing government relationships, and
 - diversify into related technologies that support nuclear energy development.

Growth Strategy

Cameco's goal is to be a dominant nuclear energy company – the supplier, partner, investment and employer of choice in the nuclear industry. Cameco will achieve this goal through four main strategies to:

- maintain our competitive advantage in uranium and conversion,
- maximize growth in uranium markets,

Trends in the Nuclear Power Industry

A number of evolving trends in the nuclear power industry have the potential to affect Cameco's uranium and fuel services businesses.

REACTORS – OPERATING, PLANNED AND UNDER CONSTRUCTION

There are 440 reactors operating worldwide, and a total of 82 new reactors that are under construction or planned for completion within the next 10 years (as of January 2006). This more than offsets 16 anticipated closures for a net increase of 66 reactors during the period. Given that new reactors tend to have higher capacities than older units, this represents 19% growth in nuclear generating capacity.

Highlights include:

- 57 reactors are scheduled to be built in Asia, as energy demand is driven by rapid economic expansion. More than half of this growth will occur in China and India with plans to build 18 and 15 reactors respectively,
- in Russia, Ukraine and several other eastern European countries, it is anticipated that nine reactors will be built, offset by two closures in Bulgaria as a result of their accession to the European Union, for a net gain of seven reactors,
- Finland is building a new European Pressurized Water Reactor (EPR). Upon completion, the country will have five nuclear reactors. France has also announced the construction of the new EPR beginning in 2007, and
- in Canada, Bruce Power has committed to restart the two shutdown A units. The Province of New Brunswick will proceed with refurbishing the Point Lepreau reactor, a 680 MW Candu. The refurbishment is expected to extend the life of the unit by 25 years.

REACTORS – PENDING

A number of non-nuclear countries including Belarus, Italy, Indonesia, Poland, Turkey and Vietnam are considering nuclear programs. Additionally, South Africa is developing a new type of reactor, called the Pebble Bed reactor that, if successful, will be smaller and targeted at regions requiring electricity, but lacking critical distribution and transmission capability.

PLANT PERFORMANCE

CAPACITY FACTORS¹

More electricity is being generated from existing reactors through life extensions, reactor upgrades and improved performance. World capacity factors averaged approximately 79% in 2005, about the

same as 2004. The US nuclear industry generated an estimated 783 billion kWh of electricity in 2005, slightly down from the 2004 record of 789 billion kWh. The average net capacity factor for the US was 89.7% in 2005, just short of 2004's record of 90.5%. A 1% improvement in world capacity factors equates to additional demand for about 1.5 million pounds of uranium concentrates and approximately 0.6 million kgU of conversion services.

SAFETY

There were no significant nuclear safety incidents during 2005 and the industry continues to be one of the safest forms of electricity production.

OPERATING COSTS

In 2004, the latest year for which data is available, the direct costs of US nuclear electricity production was the lowest for baseload (non-hydro) electricity production for the fifth consecutive year. US production costs were 1.68 cents per kWh for nuclear, 1.92 cents for coal, 5.39 cents for oil and 5.87 cents for natural gas.

CAPITAL COST

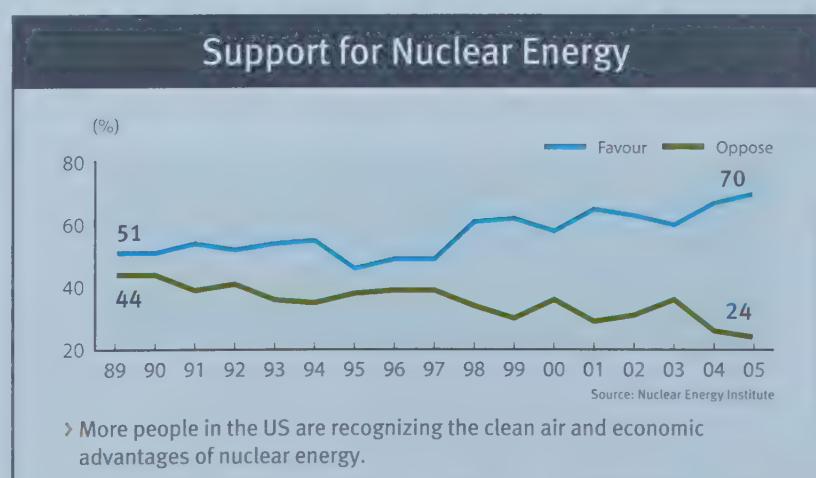
Recognizing the need to continue to be economically competitive with other baseload generation alternatives, the industry is targeting reduced capital costs for new nuclear plant construction.

NUCLEAR ACCEPTANCE

POSITIVE TRENDS

North America

Support for nuclear power in North America is gaining wider acceptance. In the US, a poll conducted by the Nuclear Energy Institute in 2005, showed that 70% of Americans favoured the use of nuclear power. In another poll, 83% of residents living within 16 kilometres of an operating nuclear power plant favoured nuclear energy and 76% were willing to see another reactor built on an existing site near them.



¹ Capacity factor for a given period represents the amount of electricity actually produced for sale as a percentage of the amount of electricity the plants are capable of producing for sale.

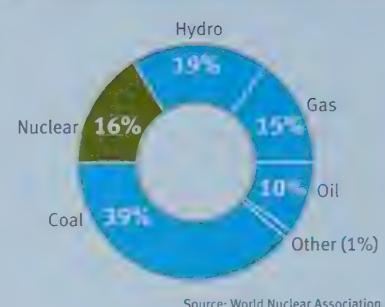
World Nuclear Reactors

Cameco estimate

	2015				GWe Change	Nuclear Electricity 2004* (%)
	Operating 2006	New	Shutdown	Total Operating		
Argentina	2	1	0	3	0.7	8
Brazil	2	1	0	3	1.4	3
Canada	18	2	0	20	1.7	15
Mexico	2	0	0	2	0	5
US	103	4	0	107	4.7	20
Americas	127	8	0	135	8.5	-
China	9	18	0	27	17.4	2
India	15	15	0	30	9.0	3
Iran	0	2	0	2	2.0	0
Japan	54	10	1	63	13.3	29
Korea	20	8	0	28	9.6	38
Pakistan	2	2	0	4	0.6	2
Taiwan	6	2	0	8	2.7	21
Asia	106	57	1	162	54.6	-
Belgium	7	0	0	7	0	55
Czech Republic	6	0	0	6	0	31
Finland	4	1	0	5	1.6	27
France	59	1	1	59	1.4	78
Germany	17	0	0	17	0	32
Hungary	4	0	0	4	0	34
Lithuania	1	0	1	0	(1.3)	72
The Netherlands	1	0	0	1	0	4
Romania	1	2	0	3	1.4	10
Slovakia	6	2	2	6	0	55
Slovenia	1	0	0	1	0	38
Spain	9	0	1	8	(0.2)	23
Sweden	10	0	0	10	0	52
Switzerland	5	0	0	5	0	40
UK	23	0	8	15	(2.5)	19
Europe	154	6	13	147	0.4	-
Russia	31	6	0	37	5.8	16
Armenia	1	0	0	1	0	39
Bulgaria	4	2	2	4	1.1	42
Ukraine	15	1	0	16	1.0	51
Russia and Eastern Europe	51	9	2	58	7.9	-
South Africa	2	2	0	4	0.3	7
Total	440	82	16	506	71.7	16

*Source: World Nuclear Association

World Electricity Generation



► Nuclear is the world's third largest source of electricity at 16%.

In Canada, a November 2005 poll showed that support for nuclear power in Ontario had increased to 62% from 48% in February 2005, returning to support levels experienced in previous years. Similarly, support for refurbishing reactors in Ontario was 72%, up from 68%.

US President George Bush signed into law the first national energy policy in more than 10 years. The policy contains provisions that encourage investment in new nuclear reactor construction. Companies constructing new plants will receive financial protection for delays beyond their control for the first six new reactors and a limited production tax credit for the first eight years of operation for the first 6,000 MW of new capacity. Additionally, loan guarantees up to 80% of the project cost are available for non-emitting technologies, including nuclear power plants.

In the US, 10 entities are proceeding with applications for either early site permits (ESP) or a combined construction and operating licence (COL) for a potential new nuclear power plant. Three ESP applications are currently under review by the US Nuclear Regulatory Commission, one is being developed and six others have indicated

they will go straight to a COL. Several potential sites and reactor types have been identified with the potential for several new reactors to be ordered in the next several years with completion as early as 2014 or 2015.

Licence extensions continue, with a total of 39 US reactors granted 20-year licence extensions, and another 39 reactor operators having applied for or indicating applications are pending for life extensions. This covers more than 75% of the 103 US reactors.

Europe

Reliability of natural gas supply is a critical issue for European consumers. As a result of a dispute over Russian gas supplies to the Ukraine, Europeans are questioning their increasing reliance on Russian gas and are reconsidering nuclear power to diversify energy sources.

The Netherlands has reversed its policy of closing down its only nuclear reactor by 2013 and has granted a 20-year life extension allowing the unit to operate for a total of 60 years until 2033.

The United Kingdom has granted 10-year life extensions to two of its units, allowing operations until 2018. Licence extensions for other units are being pursued. In addition, the prime minister of the UK recently acknowledged that new nuclear construction must be considered in the UK's plans to reduce greenhouse gas emissions and maintain energy diversity.

Several countries including Germany and Sweden are debating the wisdom of their nuclear phase-out policies.

India

The US has announced plans to end nuclear sanctions on India, which would enable the country to buy nuclear fuel as well as civilian reactor technology from the US and possibly other nations. In return, India would have to separate its civilian and military nuclear programs and place its civilian nuclear facilities under the supervision of the International Atomic Energy Agency. The removal of the sanctions could provide an additional market for nuclear fuel suppliers, equivalent to about 9 million pounds U₃O₈ per year by 2020. India currently supplies its 1.2 million pound annual requirements from its domestic uranium mines.

NEGATIVE TRENDS

A number of European countries such as Sweden, Germany and Spain, still have official nuclear power phase-out policies and it remains a political issue in many other countries.

Nuclear has been recognized as a non-emitting technology in US energy legislation, but the US does not have greenhouse emission credits or carbon taxes. Other countries have resisted recognizing nuclear power as a non-emitting technology entitled to emission credits.

The first few new nuclear plants may face significant business risks including "first-of-a-kind" costs, construction delays, and political, regulatory and licensing risk.

Although progress is being made in several countries on the management of radioactive waste from the nuclear fuel cycle, it remains a controversial issue. There remains strong opposition to nuclear power among certain members of the environmental community. In the past year, however, a number of prominent environmentalists have strongly endorsed renewed nuclear power plant construction.

SUMMARY OF TRENDS

The nuclear industry is experiencing stable growth through capacity factor improvements, refurbishments, life extensions and, in Asia, aggressive new-build programs. It is difficult to determine which factors will dominate the outlook for nuclear energy in the long term. However, the demand for nuclear power has the potential to grow even more significantly as increasing electricity demand, the need for non-emitting, affordable baseload energy and desires for energy security begin to take hold globally.

Overall, these indicators are expected to support a stable demand trend for uranium and conversion services in the next 10 years with the potential for accelerated growth if nuclear energy continues to gain broader acceptance worldwide.





Project geologist Trevor Perkins examines core samples at McArthur River where exploration continues.



WORLDWIDE URANIUM SUPPLY AND DEMAND

The uranium market supply and demand fundamentals remained strong in 2005, indicating a need for more primary mine production over the coming decade. During the past 20 years, uranium consumption has exceeded mine production by a wide margin, with the difference being made up by secondary supply sources such as various types of inventory and recycled products. While there are still inventories, they are considerably reduced and in many cases might be classified as strategic rather than excess and, therefore, are not available to be used or sold.

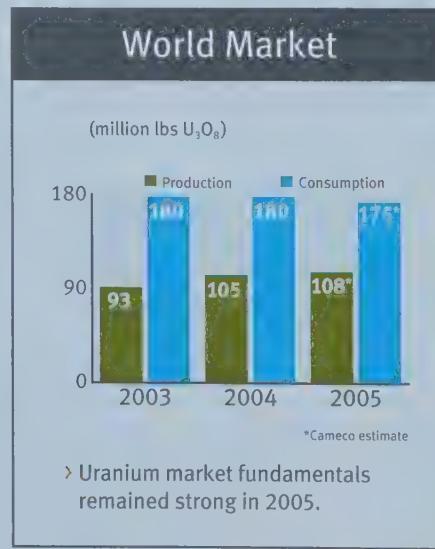
URANIUM DEMAND

Current nuclear power trends are generally positive. However, it is difficult to know whether these trends and the national debates on the long-term future of nuclear power will result in more or

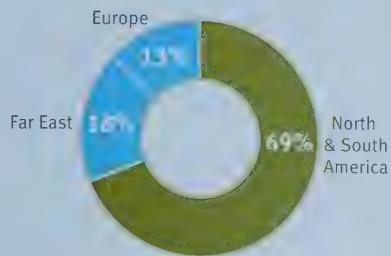
less favourable conditions for the nuclear industry. New plant construction, improved reactor operations, uprates and the extension of reactor lives make it highly likely that, at a minimum, the current demand for uranium will continue for several decades.

World uranium consumption totalled about 175 million pounds in 2005. Cameco estimates that annual world uranium consumption will reach 217 million pounds in 2015 reflecting an annual growth rate of about 2%. In 2006, world demand is expected to increase to about 176 million pounds.

Growth in demand could be tempered somewhat as uranium price increases encourage utilities to order more enrichment services. Uranium demand is affected by the



U₃O₈ Revenue by Region



➤ The Americas are Cameco's largest customer region accounting for 69% of total U₃O₈ revenue.

enrichment process, which is one of the steps in making most nuclear fuel. Utilities choose the amount of uranium and enrichment services they will use depending on the price of each. In essence, utilities may substitute enrichment for uranium, thereby decreasing the demand for

uranium and increasing the demand for enrichment. For example, when uranium prices rise, utilities tend to use more enrichment assuming enrichment prices remain constant. Of course, if enrichment prices increased, utilities would likely use less enrichment and more uranium. The tails assay (percentage of uranium left after processing) is an indication of the mix of uranium and enrichment used. The lower the tails assay, the less uranium being used.

For example, if world utilities choose to decrease tails assay by 0.01%, this would decrease annual uranium requirements by 2% or about 4 million pounds of uranium per year and increase the demand for enrichment services by 2%. The decrease in uranium consumption to 175 million pounds in 2005 was due primarily to lower tails assay, offset somewhat by new reactors coming online. It is important to note that there is a limit to the enrichment capacity that is currently available. In addition, enrichment contracts generally limit the ability to substitute enrichment for uranium.

In 2005, four reactors were connected to the electricity grid, two in Japan, one in India, and a refurbished reactor restarted in Canada. Three of these units entered commercial operation in 2005, and the other is expected to enter commercial operation in the first quarter of 2006. There were two reactor closures in 2005, both as a result of nuclear phase-outs, one in Germany and one in Sweden. The net result was a 2,570 MW increase in nuclear capacity.

URANIUM SUPPLY

World uranium supply comes from primary mine production and a number of secondary sources.

Mine Production

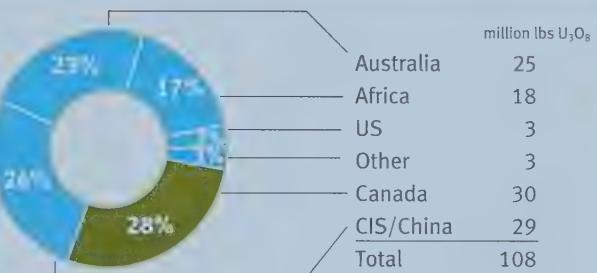
World production in 2005 was estimated at about 108 million pounds U₃O₈, up 3% from 105 million pounds

in 2004, largely as a result of incremental increases in production at existing mines. World production is expected to increase to 110 million pounds in 2006.

It is expected that with higher uranium prices, new mines will startup, but the lead-time before they enter commercial production may be lengthy depending on the region. As a result, primary supply cannot significantly increase in the near-term. The level of increase in primary mine production is dependent on a number of factors, including:

- the strength of uranium prices,
- the efficiency of regulatory regimes in various regions,
- currency exchange rates in producer countries compared to the US dollar, and
- prices for other mineral commodities produced in association with uranium (i.e. byproduct or co-product producers).

2005 World Uranium Production*



*Cameco estimate

➤ Cameco increased uranium production for the third consecutive year to 21.2 million pounds, about 20% of world output. The company plans to produce 21.4 million pounds during 2006.

Secondary Sources

Secondary sources of supply consist of surplus US and Russian military materials, excess commercial inventory and recycled products. Recycled products include reprocessed uranium, mixed oxide fuel and re-enriched tails material. Some utilities use reprocessed uranium and mixed oxide fuel from used reactor fuel. In recent years, another source of supply has been re-enriched depleted uranium tails generated using excess enrichment capacity. We estimate that these recycled products will account for about 10% of world requirements over the next 10 years. With the exception of recycled material, secondary supplies are finite. Currently, most recycled products are a high-cost fuel alternative and are used by utilities in only a few countries.

One of the largest sources of secondary supply is the uranium derived from Russian highly enriched uranium (HEU). As a result of the 1993 HEU agreement between the US and Russia to reduce the number of nuclear weapons,

additional supplies of uranium have been available to the market. Under the 20-year agreement, weapons-grade HEU is blended down in Russia to low enriched uranium (LEU) capable of being used in western world nuclear power plants. Uranium derived from Russian HEU could meet 10% of world demand over the next 10 years based on the current Russian HEU commercial agreement. In parallel, the US has made some of its military inventories available to the market, albeit in quantities much smaller than those derived from the Russian HEU agreement.

Historically, the other large source of secondary supply has been the use of excess inventories. Prior to 1985, uranium mine production exceeded reactor requirements due, in large part, to government incentive programs that anticipated rapid growth of nuclear generated electricity. The result was a buildup of large inventories, both in the commercial and government sectors.

Over the past 20 years, uranium mine production has been less than annual requirements by a wide margin and the company believes that most of these excess inventories have been consumed. In fact, in 2005 there was evidence of this trend starting to reverse, with some utilities purchasing uranium to build strategic inventories.

With 2005 uranium production about 60% of uranium requirements, secondary supplies – such as recycling and blended down HEU – continue to bridge the gap between production and requirements and this is expected to continue in the near future.

URANIUM MARKETS

Utilities secure most of their uranium requirements (80% to 90% in recent years) by entering into long-term contracts with uranium suppliers. These contracts usually provide for deliveries to begin up to four years after contracts are finalized. In awarding contracts, utilities consider the commercial terms offered, including price, and the producer's record of performance and uranium reserves.

There are a number of pricing formulas, including fixed prices adjusted by inflation indices, reference prices (generally spot price indicators, but also long-term reference prices) and annual price

negotiations. Many contracts also contain floor prices, ceiling prices and other negotiated provisions that affect the amount ultimately paid.

Utilities acquire the remainder of their uranium requirements through spot purchases from producers and traders. Spot market purchases are those that call for delivery within one year. Traders and investors or hedge funds are active in the market and generally source their uranium from organizations holding excess inventory, including utilities, producers and governments.

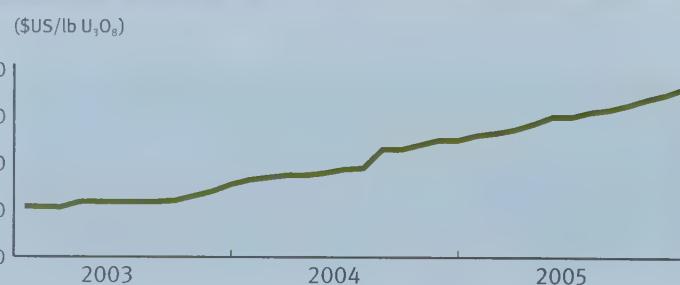
URANIUM SPOT MARKET

The industry average spot price (TradeTech and Ux) on December 31, 2005 was \$36.38 (US) per pound U_3O_8 , up 77% from \$20.60 (US) at the end of 2004. Spot market volume totalled approximately 35 million pounds in 2005, compared to about 20 million pounds for 2004.

Discretionary purchases, or purchases not for immediate consumption, accounted for about two-thirds of the 2005

spot volume – with about 25% of total purchases attributable to investment and hedge funds. The large gap between spot and long-term prices early in 2005 resulted in a number of buyers building inventory through discretionary spot purchases. The increase in 2005 spot market volumes is largely attributable to these discretionary purchases.

Long-Term Uranium Price



Long-term uranium prices increased 45% to \$36.13 (US) per pound during 2005 reflecting tightening supply.



LONG-TERM URANIUM MARKET

Long-term contracting in 2005 is estimated to have been in excess of 240 million pounds U₃O₈, more than two and a half times the 90 million pounds contracted in 2004. Contracts written in 2005 were generally for much longer durations than in the recent past – up to 10 years in comparison to three-to-five years, resulting in higher volumes of U₃O₈ under contract.

The industry average long-term price (TradeTech and Ux) on December 31, 2005 was \$36.13 (US) per pound U₃O₈, up 45% from \$25.00 (US) at the end of 2004.

We expect long-term contracting activity in 2006 will remain quite strong as utilities attempt to mitigate the risk of potential future supply shortfalls by securing long-term contracts with reliable primary suppliers. Currently we estimate that more than 150 million pounds will be contracted in the long-term market in 2006.

URANIUM BUSINESS – KEY PERFORMANCE DRIVERS

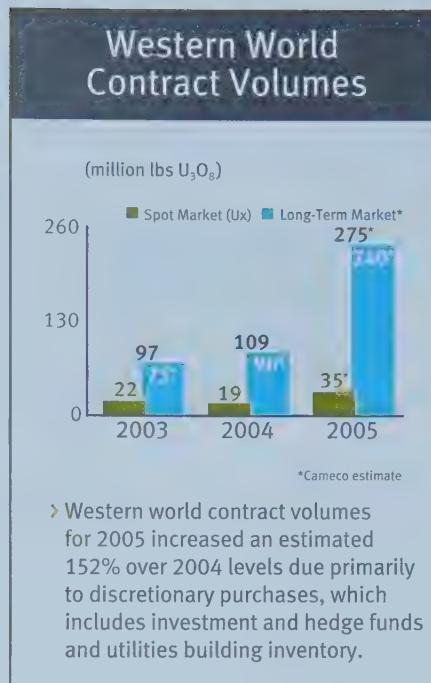
The major factors that drive Cameco's uranium business results are:

- prices – spot and long-term,
- volume – sales, production and purchases,
- costs – production and purchases, and
- the relationship between the US and Canadian dollars.

PRICES – SPOT/LONG-TERM

Background

While Cameco generally does not sell uranium in the spot market, about 60% of the company's uranium under its long-term contracts is sold at prices that reference the spot market price near the time of delivery. The remaining 40% is sold at fixed prices escalated by an inflation index.



Uranium market price indicators are quoted by the industry in US dollars per pound U₃O₈.

Uranium contract terms generally reflect market conditions at the time the contract is negotiated. After a contract negotiation is completed, deliveries under that contract typically do not begin for up to four years. As a result, many of the contracts in our current portfolio, particularly those signed prior to 2005, reflect market conditions when uranium prices were significantly lower. For example, 2003 was the first year that the spot price averaged over \$11.00 (US) since the 1995-1997 period. Before that they were much lower, and only exceeded \$11.00 (US) on a sustained basis in

1988 and earlier. To the extent contracts have fixed or low ceiling prices, they will yield prices lower than current market prices.

As a result, Cameco's average realized price for uranium sales was \$15.45 (US) per pound of uranium compared to an average spot price of \$28.67 (US) and average long-term price of \$30.66 (US). In 2005, the benefit of improved spot prices was also partially offset by a less favourable foreign exchange rate. Our average realized selling price rose by 20% in US dollars but only 12% in Canadian dollars over 2004.

As in previous years, we are continually in the market signing new contracts with deliveries beginning one to four years in the future. Generally, Cameco continues to maintain the target portfolio mix of 40% fixed prices (escalated by inflation) and 60% market-related prices, and recently, is obtaining floor prices that escalate over time. In the current market environment of rapidly increasing uranium prices, this strategy has allowed Cameco to add increasingly favourable contracts to its portfolio while maintaining sensitivity to future price movements.

Uranium Price Sensitivity 2006

For deliveries in 2006, a \$1.00 (US) per pound change in the uranium spot price from \$33.00 (US) per pound would change revenue by about \$4 million (Cdn) and net earnings by \$2 million (Cdn). This sensitivity, which accounts for our currency hedge program

Uranium Market Review

Year-end prices (\$US/lb U ₃ O ₈)	2005	2004	% change
Market*			
Spot uranium	36.38	20.60	77
Long-term uranium	36.13	25.00	45

*TradeTech and Ux average.

(discussed in this MD&A under "Foreign Exchange"), is based on an expected effective exchange rate of \$1.00 (US) being equivalent to about \$1.22 (Cdn).

Uranium Price Sensitivity Analysis 2006 to 2008

The table below shows an indicative range of average prices that Cameco would expect to realize under the current sales portfolio. The prices in the table are intended to show how various market price scenarios may impact Cameco's uranium revenue. This analysis makes a number of assumptions that are included as table footnotes.

As shown in the \$35.00 (US) spot price scenario, Cameco would expect to realize an average price of \$28.25 (US), or about 81% of the spot price, by 2008 if prices remain at or close to \$35.00 (US). If spot prices rose to \$45.00 (US), Cameco would expect to realize an average price of \$32.75 (US), or about 73% of the spot price, by 2008. On the other hand, if prices fell to \$25.00 (US), Cameco would expect to realize an average price of \$23.50 (US), or about 94% of the spot price, by 2008.

VOLUME – SALES, PRODUCTION AND PURCHASES

Sales Volume

In 2005, Cameco sold 34.2 million pounds of uranium, representing a 6% increase from 2004 sales of 32.3 million pounds. The higher sales volumes were in response to strong market demand. Cameco's uranium sales volumes are expected to total more than 35 million pounds in 2006 with similar levels for 2007 and 2008.

Cameco sells more uranium than it produces from its mines and meets its contractual delivery commitments through a combination of mine production, long-term purchase arrangements, spot purchases and inventory.

Uranium Operations

McArthur River/Key Lake

Production at McArthur River/Key Lake reached the licensed annual production capacity limit of 18.7 million pounds in 2005, identical to 2004 levels. Cameco's share was 70% or 13.1 million pounds.

The collective agreement for unionized employees at the McArthur River and Key Lake operations expired on

December 31, 2005. Cameco has entered into negotiations with representatives of the United Steelworkers of America.

We have applied for an increase in the annual licensed capacity at McArthur River and Key Lake to 22 million pounds U₃O₈ per year from the current 18.7 million pounds. The Canadian Nuclear Safety Commission (CNSC) is considering the appropriate process to complete its review of the potential impacts associated with this proposed expansion. Once the process is determined, we will be in a better position to estimate the time required for a decision. If approval is received, we expect it will take about two years to ramp-up production to a sustained planned production rate of approximately 21 million pounds per year. This production rate may change as we gain experience in ramping up production at this operation.

Uranium Production

Cameco's share of production
(million lbs U₃O₈)

	2006 Planned	2005 Actual	2004 Actual
McArthur River/Key Lake	13.1	13.1	13.1
Rabbit Lake	5.9	6.0	5.4
Smith Ranch-Highland	1.6	1.3	1.2
Crow Butte	0.8	0.8	0.8
Total	21.4	21.2	20.5

Production at McArthur River/Key Lake in 2006 is expected to remain at the same level as 2005. Production would increase modestly if the CNSC approves the capacity increases at these facilities in 2006.

Refer to the section titled "Uranium Exploration" in this MD&A for information on exploration programs near McArthur River.

Rabbit Lake

Rabbit Lake produced 6.0 million pounds U₃O₈ in 2005, an 11% increase from 2004. The additional production resulted from a significant increase in milled tonnage. Rabbit Lake production is expected to decline slightly to 5.9 million pounds U₃O₈ in 2006.

Work continues on the environmental assessment (EA) to process a little over half of the uranium from Cigar Lake ore at the Rabbit Lake mill beginning in 2009. Guidelines that define the scope of the EA were approved by the province in November 2005 and were approved by the CNSC with minor modifications in December 2005.

Refer to the section titled "Uranium Exploration" in this MD&A for information on exploration programs near Rabbit Lake.

Smith Ranch-Highland and Crow Butte

The Smith Ranch-Highland (Wyoming) and Crow Butte (Nebraska) in situ leach (ISL) mines produced a total of 2.1 million pounds of U₃O₈ in 2005. Production is expected to increase 14% in 2006 to 2.4 million pounds. We are in the process of increasing production from the Smith Ranch mine over the next several years to help meet the need for new uranium supply.

Uranium Projects

Cigar Lake

Construction began on January 1, 2005 and remains on schedule for completion and commencement of operations in the first half of 2007, subject to regulatory approval and securing skilled tradespeople. Once production begins, there will be a ramp-up period of up to three years before the mine reaches expected full production of 18 million pounds per year. Cameco's share is 50%.

The capital costs for the Cigar Lake project are currently forecast at \$520 million. Our share is 50% or \$260 million. The permanent access road was connected to Saskatchewan provincial road 905 in November 2005 and is currently being utilized for material transport. The final grading of the road is planned for 2006. The development of the second shaft is approximately 85% complete and development of the underground workings is approximately 55% complete.

Inkai

The ISL test mine at Inkai in Kazakhstan produced 0.5 million pounds of uranium in 2005 (Cameco's share is 60%).

Approval was received in the third quarter of 2005 to increase the test mine's capacity to 0.8 million pounds U₃O₈. Planned production for 2006 is 0.65 million pounds U₃O₈. Construction to facilitate this increase is expected to be complete in the first quarter of 2006.

The regulatory authorities have approved the EA and design plan for the commercial processing facility to be located in another area at Inkai, called block 1. Initial civil work at the main processing plant and well field drilling has begun. Commercial operation is scheduled for 2007. The costs, net of sales proceeds from Inkai test mine production, are being capitalized until commercial production is achieved. We expect Inkai to ramp-up to full production of 5.2 million pounds U₃O₈ per year by 2010.

The capitalized cost to bring the new ISL mine to commercial production is estimated at \$92 million (US), up about 10% due primarily to inflation. Subject to executing formal amendments, Cameco has agreed in principle to increase its loan to the Joint Venture Inkai from \$40 million (US) to a maximum of \$100 million (US). We also agreed to reduce our financing fee from an effective 10% interest rate to one based on the three-month London inter bank offered rate (LIBOR) plus 2% (equal to 6.54% using the December 31, 2005 LIBOR rate). The earlier loan amount was based on constructing a smaller plant with an annual production capacity of 2.6 million pounds annually. Repayment of the loan will begin when the mine achieves commercial production. Legal work continues on formalizing these amendments.

Purchase Volumes

Cameco also has purchase commitments for uranium products and services from various sources. Most of these purchase commitments are in the form of UF₆. At the end of 2005, these purchase commitments totalled 59 million pounds uranium equivalent from 2006 to 2013. Of this, 54 million pounds are from exercising options under our agreement to purchase uranium from dismantled Russian weapons (the Russian HEU commercial agreement).

Costs

Cameco's cost of supply is influenced by its mix of produced mine material and uranium purchases.

Production costs at our Saskatchewan uranium mines, our largest source of production, are primarily fixed, with about one-third attributable to labour. The largest variable operating cost is production supplies, followed by maintenance materials.

Uranium mine production costs are driven mostly by the complexity of the operation. Unit costs of production are

driven primarily by the grade and size of the reserves. McArthur River is the world's largest, high-grade uranium mine. Its ore grade averages 24% U₃O₈ which means it can produce more than 18 million pounds per year by extracting only 100 to 120 tonnes of ore per day. While Rabbit Lake's average ore grade of 1% U₃O₈ is much lower, it compares favourably to other operating mines in the world where ore grades are generally below 0.5%.

ISL extraction methods can make even lower-grade orebodies commercially attractive. Worldwide, ISL mines typically recover uranium from orebodies with an average grade in the range of 0.1% U₃O₈. Cameco's cost of supply is influenced only modestly by the two US ISL operations, as the production from the ISL operations accounts for a small percentage of its total primary output. In 2006, US ISL production is expected to account for about 11% of the company's planned primary output.

Purchased product also affects Cameco's cost of supply. Most of Cameco's purchase commitments are under long-term, fixed-price arrangements reflecting prices significantly lower than the current published spot and long-term prices. These purchase commitments totalled \$661 million (US) at December 31, 2005. Refer to note 21 in the notes to the consolidated financial statements. A significant portion of these purchased pounds will be delivered into existing sales contracts.

Foreign Exchange

The relationship between the Canadian and US dollars affects financial results of the uranium business as well as the conversion services business. For that reason, the effect on both businesses will be discussed in this section.

Cameco sells most of its uranium and conversion services in US dollars while most of its uranium and conversion services are produced in Canada. As such, these revenues are denominated mostly in US dollars, while production costs are denominated primarily in Canadian dollars.

During 2005, the Canadian dollar strengthened against the US dollar from \$1.20 at December 31, 2004 to \$1.17 at December 31, 2005.

We attempt to provide some protection against exchange rate fluctuations by planned currency hedging activity designed to smooth volatility. Therefore, our uranium and conversion revenues are partly sheltered against declines in the US dollar in the shorter term.

In addition, Cameco has a portion of its annual cash outlays denominated in US dollars, including uranium and conversion services purchases, which provide a natural hedge against US currency fluctuations. While natural

hedges provide this protection, the influence on earnings from purchased material in inventory is likely to be dispersed over several fiscal periods and is more difficult to identify.

At each balance sheet date, Cameco calculates the mark-to-market value of all foreign exchange contracts with that value representing the gain or loss that would have occurred if the contracts had been closed at that point in time. We account for foreign exchange contracts that meet certain defined criteria (specified by generally accepted accounting principles) using hedge accounting. Under hedge accounting, mark-to-market gains or losses are included in earnings only at the point in time that the contract is designated for use. In all other circumstances mark-to-market gains or losses are reported in earnings as they occur.

At December 31, 2005, we had foreign currency contracts of \$1,112 million (US) and €32 million that were accounted for using hedge accounting, and foreign currency contracts of \$20 million (US) that did not meet the criteria for hedge accounting. The foreign currency contracts are scheduled for use as follows:

	2006	2007	2008	2009
\$ millions (US)	467	370	195	100
€ millions	9	11	7	5

These contracts have an average effective exchange rate of \$1.25 (Cdn) per \$1.00 (US), which reflects the original spot prices at the time contracts were entered into and includes deferred revenue. At December 31, 2005, the mark-to-market value on all foreign exchange contracts was \$37 million.

Timing differences between the maturity dates and designation dates on previously closed hedge contracts may result in deferred revenue or deferred charges. At December 31, 2005, deferred revenue totalled \$26 million. The schedule for deferred revenue to be released to earnings, by year, is as follows:

Deferred revenue (loss)	2006	2007	2008	2009
\$ millions (Cdn)	29	3	(6)	—

In 2005, most of the net inflows of US dollars were hedged with currency derivatives. Net inflows represent uranium and conversion sales less outlays denominated in US dollars. For the uranium and conversion services businesses in 2005, the effective exchange rate, after allowing for hedging, was about \$1.30 compared to \$1.39 in 2004. Results from the gold business are translated into Canadian dollars at prevailing exchange rates.

For 2006, every one-cent change in the US to Canadian dollar exchange rate would change net earnings by about \$4 million (Cdn).

URANIUM STRATEGIES

Cameco's overall objective is to build on and leverage our competitive advantage in uranium. In doing so, we strive to meet three major goals:

- remain the low-cost producer,
- protect and expand our market position, and
- maintain supply flexibility.

There are a number of key strategies the company uses to achieve its goals. We strive to maintain our low-cost position by adding economically attractive reserves and improving our margins. We look to expand our low-cost reserves through acquisition, exploration around existing operations and by identifying geological regions that will provide the next tier of low-cost production.

We improve our margins by optimizing production to yield the highest rate of return, gaining cost efficiencies through quality and business process improvements, and pursuing fundamental productivity gains through technological development.

We seek to protect and grow market position by acquisition, seeking to accelerate production from existing operations, and participating in new uranium opportunities at exploration and development stages.

To maintain our supply flexibility, we are building a geographically diverse production base. This includes accelerating the production at Inkai, bringing Cigar Lake into production, and continuing to pursue a global exploration program. This program identifies the most prospective regions and maximizes options to access and/or control land positions for future business advantage. To ensure we have adequate production, we identify the optimal resource mix (i.e. different types of deposits such as unconformity versus in situ leach), and replace reserves through exploration and acquisition.

Given Cameco's leadership role in the uranium market, the company wants to successfully maximize uranium market growth. Our goals in this regard are to:

- protect and expand market position,
- optimize price realization over time, and
- improve supply flexibility.

To grow our market position, we build on our customer relationships and expand the range of services available to customers while maintaining the company's reputation as a reliable supplier. In addition, we maintain participation in secondary supplies including, enhancing our relationship with Russia, influencing the timing of sales of secondary supplies to the market, and using market intelligence to achieve early notice of new supply sources.

A key element for Cameco is our contracting strategy, which is influenced by the supply and demand outlook for uranium. Since mid-2003, the supply side has experienced significant impacts that caused uranium prices to rise rapidly. This upward trend has been due, in large part, to the realization by market participants that excess secondary supplies will not contribute as much to future uranium supply as they had previously expected. Consequently, a greater volume of new primary mine production will be needed.

The rise in prices has triggered predictable supply side responses. The most notable is the increase in companies exploring for new uranium deposits and the construction of new mines and the proposed expansion of existing ones. However, given the low prices of the last two decades, very little exploration was undertaken on a global basis, and relatively little investment was made in advancing new uranium projects. Producers were operating at close to full capacity to minimize unit costs. Undeveloped deposits, identified in previous exploration cycles, were mostly uneconomic or located in jurisdictions with political challenges. With higher prices, existing projects and newly discovered deposits will be developed, but the lead time before they enter commercial production may be lengthy depending on the region. Consequently, the primary supply industry cannot significantly increase supply in the near-term.

Future market prices will depend on a number of supply and demand factors, the more notable ones being:

- additional production from the successful expansion of existing production, startup of mines currently under construction and development of existing deposits yet to be developed,
- the success of exploration programs in identifying new commercial uranium deposits that can be developed in a reasonable period of time,
- the exchange rate in various producer country currencies relative to the US dollar,
- the timing and extent of expansion of uranium produced as a byproduct or co-product of other commodities, particularly in Australia and South Africa,
- availability of existing and possible new secondary materials, such as blended down uranium from military stock including dismantled weapons,
- the extent enrichment services are substituted for natural uranium feed, and
- the growth rate of nuclear power.

Our goal in uranium contracting is to secure contracts that will maximize our realized price, support our ongoing operations and fund new mine developments over the long term. Given the uncertainty surrounding the foregoing supply/demand factors and the impact on price, we believe it is prudent to continue to target a 40/60 mix of market-related and fixed price mechanisms. As market conditions change, we may adjust this ratio. The overall strategy will continue to focus on achieving longer duration contracts. Today, new contracts tend to reflect contract terms of up to 10 years or more. Current market-related contracts contain floor prices (at about 80% of the spot price prevailing at the time of contract negotiation) which provide significant downside protection and no or very high ceiling prices.

In the current market environment of rapidly increasing uranium prices, this strategy has allowed Cameco to add increasingly favourable contracts to its portfolio while maintaining sensitivity to future price movements. Cameco believes its current contracting strategy will provide solid value for shareholders over the long term.

CAPABILITY TO DELIVER RESULTS

Cameco will continue to enhance its capabilities in a number of areas to execute our strategies and deliver on our goals. We need to ensure that:

- other mining methods and other technologies continue to be advanced to allow us to maintain or expand our annual production,
- timely regulatory approval is secured under an increasingly stringent regulatory regime,
- skilled tradespeople continue to be available,
- adequate human resources are available to replace an aging workforce,
- capital is readily available over the longer term given our expansion plans, and
- adequate resources are allocated to exploration.

MINING METHODS

Currently, McArthur River uses only raise boring to extract ore from the mine. As we expected from the start of mining, other mining methods will be used to maintain or expand production. In 2005, we determined that the boxhole boring method would be better suited for the upper zone #4 at McArthur River, because it would allow development from a preferred location. Production from this zone is scheduled to begin in 2012.

Until Cameco has fully developed and tested the boxhole boring method, there

is uncertainty in the estimated productivity. Cameco plans to develop and test the boxhole boring method over the next four years, beginning in 2006. We do not expect this change to significantly impact our long-term uranium production plans at McArthur River.

At Cigar Lake, we plan to use the jet boring method, which has been examined through extensive test mining programs. Overall, the test mine programs were considered highly successful with all initial objectives fulfilled. However, as the jet boring mining method is new to the uranium mining industry, the potential for technical challenges exist. We are confident that our engineers will be able to solve the challenges that may arise during the initial ramp-up period.

REGULATORY APPROVAL

Cameco's growth plans depend on regulatory approvals such as environmental assessments, and obtaining construction licences and operating licences in various jurisdictions including Canada, Kazakhstan, and the US. The timing for approvals can be impacted by various factors such as, the regulator's assessment of current performance, the comprehensiveness of the documentation submitted to support the application, assessment of the significance of any anticipated incremental impacts, the number of industry approval applications being assessed at any given time by the regulator, and other factors.

Cameco expends significant financial and managerial resources to comply with laws and regulations. We seek to find solutions that best respond to regulatory concerns.

SKILLED TRADESPEOPLE

Cameco has significant experience in developing uranium mines. One of the biggest challenges in meeting our Cigar Lake construction timetable is securing skilled tradespeople. This shortage of qualified people also affects our other operations. Cameco is examining various options to accelerate our extensive apprenticeship programs.

Uranium Business Highlights

	2005	2004	% change
Revenue (\$ millions)	690	581	19
Gross profit (\$ millions)	159	104	53
Gross profit %	23	18	28
Earnings before taxes (\$ millions)*	130	91	43
Average realized price			
\$US/lb U ₃ O ₈	15.45	12.89	20
\$Cdn/lb U ₃ O ₈	20.14	17.97	12
Sales volume (million lbs U ₃ O ₈)	34.2	32.3	6
Production volume (million lbs U ₃ O ₈)	21.2	20.5	3

*Excludes the gain from sale of Energy Resources of Australia Ltd shares.

HUMAN RESOURCES

Cameco's workforce reflects the global demographics where a large part of the eligible workforce is nearing legal retirement. Approximately 25% of the workforce at our Saskatchewan uranium mines was age 50 or older at December 31, 2005. Cameco's challenge is to compete for the limited number of people entering the workforce to replace retiring employees. We have developed a strategy to meet the challenge.

READY ACCESS TO CAPITAL

Cameco has an ambitious plan to grow in the nuclear energy industry. Opportunities to invest are unpredictable and often capital intensive. We intend to maintain financial flexibility to pursue opportunities as they arise. For that reason, we maintain a conservative financial structure with a target of no more than 25% net debt to total capital.

EXPLORATION PROGRAMS

Cameco continues to pursue a focused exploration program to identify additional uranium reserves for the future to maintain the company's position as the world's largest uranium producer.

Cameco retained an exploration program and its expertise during the depressed market. As uranium prices have risen we have increased our investment in exploration to achieve our goal of expanding our reserve base to grow our uranium market leadership position.

We plan to invest about \$32 million in uranium exploration during 2006. This is up 25% compared to the \$25.7 million invested in 2005.

For more information on our exploration activities, see the section titled "Uranium Exploration" in this MD&A.

in Saskatchewan and uranium exploration projects located primarily in Canada and Australia.

REVENUE

In 2005, we established a new record for uranium revenue for the fourth consecutive year. Revenue from the uranium business increased by 19% to \$690 million in 2005 due to a higher realized selling price, which rose 12% in Canadian dollar terms (20% in US dollars) over 2004. The increase in the average realized price was mainly the result of higher prices under fixed-price contracts and a higher uranium spot price, which averaged \$28.67 (US) per pound in 2005 compared to \$18.60 (US) in 2004. A 6% increase in sales volume also contributed to higher revenue in 2005.

COST OF PRODUCTS AND SERVICES SOLD

For 2005, the cost of products and services sold was \$429 million compared to \$378 million in 2004, reflecting the 6% increase in sales volume. On a per unit basis, the cost of product sold was about 7% higher than in the previous year due primarily to higher costs for purchased uranium.

DEPRECIATION, DEPLETION AND RECLAMATION

In 2005, depreciation, depletion and reclamation (DD&R) charges were \$102 million compared to \$100 million in 2004, due to the higher sales volume. On a per unit basis, DD&R costs were similar to those of 2004.

GROSS PROFIT

In 2005, our gross profit from the uranium business amounted to \$159 million compared to \$104 million in 2004, an increase of 53%. This was attributable to the increase in the realized price for uranium and was partially offset by higher unit costs for purchased uranium. Our earnings before taxes from the uranium business improved to \$130 million from \$91 million last year, while the profit margin rose to 23% from 18% in 2004 again due to the higher realized selling price.

2006 OUTLOOK FOR URANIUM

In 2006, we expect uranium revenue to be 20% higher than in 2005 due to a projected 16% improvement in the expected realized selling price (in Canadian dollars) and a 4% increase in deliveries.

Uranium sales volume is expected to total more than 35 million pounds in 2006. Cameco's share of uranium production for 2006 is projected to increase slightly to 21.4 million pounds of U₃O₈ from 21.2 million in 2005. Uranium margins are expected to improve to about 29% compared to 23% in 2005.

URANIUM BUSINESS RESULTS

Cameco's uranium business consists of the McArthur River, Key Lake and Rabbit Lake mine and mill operations in Saskatchewan, two ISL mines in the US, the Inkai ISL test mine in Kazakhstan, the Cigar Lake development project

Uranium Exploration		
Area	Hectares at Dec. 31, 2005	2005 Actual Expenditures (\$ millions)
Canada	610,000	18.1
Australia	2,092,000	7.3
Other regions	547,000	0.3
Total	3,249,000	25.7

The financial results outlook for the uranium business segment is based on the following key assumptions:

- no significant changes in our estimates for sales volumes, costs, and prices,
- no disruption of supply from our mines or third-party sources, and
- a US/Canadian spot exchange rate of \$1.16.

URANIUM EXPLORATION

Cameco carries out mineral exploration for new uranium resources on substantial landholdings, principally located in two areas: the Athabasca Basin of northern Saskatchewan, and the Arnhem Land region in Northern Territory, Australia. Subsidiary land positions are also held in the US and Canada.

Cameco owns a range of participating interests in its exploration lands, and either owns or has the right to earn a majority interest in most of the company's projects. At year-end 2005, Cameco operated approximately 75% of its exploration projects, including joint ventures. The majority of Cameco's exploration projects are early to middle stage, on which indications of economic grades or quantities of uranium have not yet been identified. The nature of mineral exploration is such that discovery of economic deposits on new projects is uncertain and can take many years.

In 2005, Cameco also carried out surface exploration near existing mines, specifically the Rabbit Lake and McArthur River operations, with the intent to locate new resources that could be developed to expand or extend these operations. This exploration was successful at both locations.

At Rabbit Lake, the underground diamond-drilling reserve replacement program was again successful in 2005. Over 75 kilometres of drilling was completed, contributing to a net increase of 2.8 million pounds U₃O₈ in reserves and 7.2 million pounds U₃O₈ in resources after accounting for the 2005 mine production. With further definition and test-hole drilling in 2006, we expect to extend the mine life of Rabbit Lake. Production mining of two zones discovered from the reserve replacement program will be under way in the first quarter. More than four kilometres of underground

lateral development were completed in 2005, with most of the development focused on these two zones.

Continued exploration at the north end of the existing McArthur River deposit has outlined significant new results that have the potential to further expand resources with ongoing exploration drilling. We are conducting additional confirmatory drilling from surface in 2006.

Winter and summer drilling programs on another advanced exploration project, the Cree Extension project, has increased indicated resources in pounds U₃O₈ by 32% at the Millennium deposit, initially discovered in 2000. The Cree Extension Joint Venture will undertake a pre-feasibility study on Millennium during 2006. Positive 2005 results on the Collins Creek zone, part of the Dawn Lake Joint Venture, will also be followed up in 2006, while a pre-feasibility study carried out on the small Dawn Lake deposit itself found development to be uneconomic at this time.

Since the recovery of the world uranium market, and corresponding higher prices for uranium, the competitive environment for uranium exploration has changed. There are more than 300 uranium exploration companies listed on stock exchanges and most of these are actively funding new exploration programs in Canada and other regions. In the newly active sector, Cameco maintains an ongoing dialogue with numerous companies, with the objective of positioning the company for future participation in areas with promising results, and leveraging Cameco's recognized position in the sustainable development of uranium resources worldwide. Cameco's approach to future resource replacement is to combine its own exploration activities with partnerships, joint ventures, or equity holdings in other companies with assets that meet the company's investment criteria.

At December 31, 2005, Cameco owned a 21.7% interest in UEX Corporation, a TSX listed junior exploration company formed in 2002 from a combination of exploration assets previously held by Cameco and Pioneer Metals Corporation. Cameco has, as long as it maintains a 20% or higher interest in UEX, certain rights related to financing, and marketing production from future uranium deposits. As well, Cameco has the right to mill uranium produced from properties it contributed to UEX at the time of its formation in 2002. In February 2006, Cameco participated in a private placement financing for UEX on a pro rata basis with its equity interest. This participation involved the purchase of 2,222,600 common shares of UEX at a price of \$5.00 per share, and leaves Cameco's interest in UEX unchanged at 21.7%.





In 2006, the Blind River refinery will utilize unused production capacity when it begins shipping UO_3 to Springfields, UK, for toll conversion to UF_6 .

In 2005, Cameco's fuel services business consisted of refining and conversion services. Refining is an intermediate step to prepare uranium to be converted into either UF_6 or UO_2 . As of 2006, this business also includes fuel fabrication services for Candu-type reactors as a result of our acquisition of Zircatec. See the following discussion under "Fuel Fabrication."

The industry practice for measuring conversion services is kilograms of uranium (kgU) rather than pounds of U_3O_8 . For example, 66 million kgU is equivalent to about 172 million pounds U_3O_8 .

CONVERSION DEMAND

World demand for UF_6 and natural UO_2 conversion services was estimated to be about 66 million kilograms of uranium (kgU) in 2005. Western world demand accounted for almost 58 million kgU with the remaining 8 million kgU

coming from the non-western world (Russia, China and eastern Europe).

Over the next 10 years, world demand is expected to increase by 27% to about 84 million kgU. In 2006, total world conversion demand is expected to increase by 1%.

CONVERSION SUPPLY

The western world UF_6 conversion industry consists of Cameco and three other significant producers, with an annual conversion capacity of about 47 million kgU. In 2005, Cameco signed a toll-conversion agreement to acquire UF_6 conversion services from one of these other converters, Springfields in Lancashire, United Kingdom. Under the 10-year agreement, Springfields will annually convert a base quantity of 5 million kgU to UF_6 for Cameco. This new source, coupled with our Canadian UF_6 plant, will account for almost 40% of the western world capacity.

In addition, supplies are available from secondary sources including excess western inventories, Russian sales in the form of low enriched uranium, Russian re-enriched depleted tails, and Russian and US uranium derived from dismantling nuclear weapons. Russia supplies most of the UF_6 conversion requirements of the former Soviet Union and eastern Europe in the form of low enriched uranium.

CONVERSION MARKETS

Utilities contract about 90% of their UF_6 conversion services through long-term contracts, purchasing the remainder on the spot market. Cameco is the only commercial supplier in the world of conversion for natural UO_2 customers. In addition to the Canadian requirements Cameco also exports UO_2 to South Korea for its Candu reactors and to the US and Japan for use as blanket fuel in boiling water reactors. Cameco also sells conversion services packaged with U_3O_8 as a UF_6 or UO_2 product.

SPOT/LONG-TERM CONVERSION MARKET

Spot market UF_6 conversion prices remained strong during 2005. Spot prices increased 28% for North American conversion services and 15% for European conversion services year-over-year. Outlined below are the industry average spot market prices (Trade Tech and Ux) for North American and European conversion services.

The industry average long-term prices (TradeTech and Ux) for North American and European conversion services are reported below. Long-term prices increased 20% for North American conversion services and 12% for European conversion services year-over-year.

The industry does not publish UO_2 prices.

CONVERSION BUSINESS – KEY PERFORMANCE DRIVERS

The major factors that drive Cameco's conversion business results are:

- prices – spot and long-term,
- volume – sales, production and purchases,
- costs – production and purchases, and
- the relationship between the US and Canadian dollars.

PRICES – SPOT/LONG-TERM

Cameco sells its conversion services directly to utilities located in many parts of the world, primarily through long-term contracts. Conversion services are priced in US dollars per kgU. The majority of conversion sales are at fixed prices adjusted for inflation. In 2005, most of our conversion sales were made under long-term contracts negotiated in a low price environment and therefore, we did not benefit from the increase in UF_6 conversion spot prices during the year.



Going forward, the majority of our contract commitments, totalling more than 75 million kgU over more than 10 years, are at fixed prices adjusted for inflation.

We continue to sign new long-term contracts with fixed prices that generally reflect long-term prices at the time of the contract award. Like uranium sales, we begin delivery of conversion services up

to four years after the agreement has finalized. Therefore, in the coming years, Cameco's contract portfolio will benefit from higher fixed-price contracts signed.

VOLUMES – SALES, PRODUCTION, PURCHASES

Sales Volume

Cameco sold 16.6 million kgU of conversion services in 2005, down marginally from the record 16.9 million kgU in 2004. We expect conversion sales volume to total about 19.0 million kgU in 2006, up 14% from 2005.

Spot Conversion Market Review			
Markets	2005	2004	% change
Spot UF_6 conversion ¹			
North America	11.50	9.00	28
Europe	11.50	10.00	15
Long-term UF_6 conversion ^{1,2}			
North America	12.00	10.00	20
Europe	12.88	11.50	12

¹ Prices are industry averages.
² TradeTech only for 2004 prices.

Production Volume

Total production at our Port Hope conversion facility for 2005 was 11.4 million kgU, up 21% from 9.5 million kgU for 2004, which mainly reflects the impact of a seven-week labour disruption in 2004. Production in 2005 was about 17% lower than we planned due to problems in fluorine generation. This was compounded by a difficult restart of the UF₆ plant after our regular maintenance shutdown, which primarily resulted from the hot and humid weather experienced during the summer months when the restart occurred. Our planned production for 2006, is projected to be about 14.2 million kgU, up 25% from 2005.

At our Blind River refinery, unused capacity was utilized to supply UO₃ for the Springfields UF₆ toll-conversion agreement announced last year. A record 15.1 million kgU as UO₃ was produced up 44% from 10.5 million kgU in 2004. In 2006, we expect the Blind River refinery to produce 18.0 million kgU as UO₃ to feed both Port Hope and Springfields conversion facilities. The 18.0 million kgU represents a 19% increase over 2005 UO₃ production and equals the current licensed capacity of the plant.

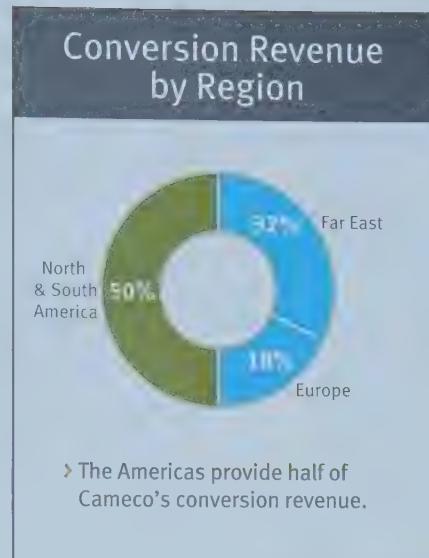
We have filed a proposal with the CNSC to increase the production capacity of the Blind River refinery to 24 million kgU per year from 18 million. This increase will require an environmental assessment and regulatory approval. Cameco expects to complete the environmental assessment in 2006. Once regulatory approval is received, relatively minor plant modifications will be required to achieve the increased capacity.

Purchase Volume

Cameco also has purchase commitments, which primarily reflect the conversion component of the low enriched uranium (LEU) from Russian HEU, re-enriched tails product and the company's agreement to purchase Springfields' conversion services for a 10-year period beginning in 2006. Cameco's UF₆ conversion purchase commitments at December 31, 2005 total about 73 million kgU, most as conversion services.

COSTS

Cameco's mix of production and purchases influences its cost of sales. Conversion operating costs are primarily fixed with about 45% attributable to labour. The largest variable



operating cost is for anhydrous hydrogen fluoride, followed by energy (gas and electricity).

The majority of Cameco's UF₆ conversion purchase commitments are under long-term, fixed-price arrangements reflecting prices lower than current spot prices. These purchase commitments totalled \$395 million (US) at December 31, 2005. Refer to note 21 in the notes to consolidated financial statements. A significant portion of these purchases has been committed under existing sales contracts.

FOREIGN EXCHANGE

The majority of the company's conversion services are sold in the US and sales are denominated in US dollars, while production costs are incurred in Canada and denominated in Canadian dollars. As a result, the strengthening of the Canadian dollar against the US dollar in 2005 negatively affected Cameco's results. A discussion about Cameco's hedging program can be found in the uranium business section under the heading "Foreign Exchange."

FUEL FABRICATION

Cameco acquired a 100% interest in Zircatec in early 2006 for \$108 million subject to closing adjustments. Zircatec's primary business is manufacturing nuclear fuel bundles for sale to companies that generate electricity from Candu reactors.

This acquisition is expected to be moderately accretive to cash flow and earnings in 2006, assuming there is no significant change to existing revenue and costs.

In Port Hope, Ontario, Zircatec operates a facility that is licensed to handle uranium materials. As a service to utility customers, the plant presses uranium dioxide powder into pellets that are loaded into tubes and then assembled into fuel bundles. These bundles are ready to insert into the reactor core as fuel to generate clean electricity. Zircatec supplies these fuel bundles to Candu-style reactors, with sales to Bruce Power currently representing a substantial portion of its business. The plant's annual capacity is 1,200 tonnes uranium as finished fuel.

In Cobourg, Ontario, Zircatec also operates a facility where the primary product is zirconium tubing, an integral part of fuel bundles used by nuclear reactors. The plant also manufactures various Candu reactor components and monitoring equipment.

FUEL SERVICES STRATEGIES

Cameco's objective is to build on and leverage its competitive advantage in fuel services. In doing so, we strive to meet three major goals:

- remain a low-cost producer,
- protect and expand market position, and
- maintain supply flexibility.

To achieve these goals, the company's strategies are to improve its margins and to protect and grow its market position. We plan to improve our margins by increasing capacity and through quality and business process improvements. In addition, we will pursue fundamental productivity gains through technological development.

To protect and grow market position, we intend to expand or build new capacity. We will limit risk and capital expense by selectively pursuing partnering opportunities with other nuclear fuel cycle participants.

CAPABILITY TO DELIVER RESULTS

Cameco will execute our strategies and deliver on our goals by ensuring:

- community relations at Port Hope continue to strengthen,
- adequate human resources are available to replace an aging workforce,
- capital is available over the longer term given our expansion plans, and
- adequate resources are allocated to maintain and grow our fuel services business.

COMMUNITY RELATIONS

Cameco decided in 2005 not to proceed with a slightly enriched uranium dioxide (SEU) blending project at its Port Hope conversion facility. SEU is the new uranium fuel proposed for use in the Bruce Power reactors in Ontario.

Bruce Power requires SEU for a power uprate project that is expected to enhance the safety and reliability of the Bruce B reactors. SEU is also the basis of the fuel required for the next generation of Candu reactors being developed by Atomic Energy of Canada Ltd.

There was no question that we could produce SEU safely while ensuring public safety and protecting the environment at Port Hope. The public communication process ultimately took longer than anticipated leading to the development of alternate sources of SEU blending to meet the Bruce Power project schedule.

Going forward, we will adopt a more consultative approach to community relations. For example, for Vision 2010, which is a long-term project to remediate and rebuild parts of the Port Hope conversion site, we initiated a community consultation process to obtain input early in the planning stage.

HUMAN RESOURCES

As with our uranium business, we need to ensure we have adequate human resources to replace the aging fuel services workforce. At December 31, 2005, about 35% of the conversion services workforce was age 50 or older. We have developed a strategy to meet that challenge.

REGULATORY APPROVALS

Cameco's plan to grow in the fuel services business depends on securing regulatory approvals for environmental assessments and operating licences at Blind River and Port Hope. We will apply for licence renewals for all three fuel services facilities in 2006 because their existing five-year licences expire in early 2007. In addition to its licence renewal, Zircatec will be applying for a licence amendment for the commercial manufacturing of the SEU required for the Bruce Power power uprate project.

We have also applied to expand the capacity of the Blind River refinery to support our agreement with Springfields and to add additional pollution control equipment.

ADEQUATE RESOURCES

Cameco believes it has the appropriate capabilities in place to maintain its low-cost status, protect and grow its market position and improve its supply flexibility. We intend to remain competitive in the longer term and retain the flexibility to quickly take advantage of future new market opportunities. Cameco constantly reviews options to grow the conversion business to meet these longer-term opportunities.

CONVERSION BUSINESS RESULTS

In 2005 Cameco's conversion business consisted of the uranium refining and conversion facilities located in Ontario.

REVENUE

We established a new record for conversion services revenue in 2005. Revenue from the conversion business rose by 10% to \$158 million compared to \$144 million in 2004 due to a 12% improvement in the realized price. The benefit of the price improvement was partially offset by a decline in sales volumes that were 2% lower than last year's record deliveries.

Conversion Business Highlights

	2005	2004	% change
Revenue (\$ millions)	158	144	10
Gross profit (\$ millions)	28	33	(15)
Gross profit %	18	23	(22)
Earnings before taxes (\$ millions)	25	31	(19)
Sales volume (million kgU)	16.6	16.9	(2)
Production volume (million kgU)	11.4	9.5	20

COST OF PRODUCT

In 2005, the cost of products and services sold was \$120 million compared to \$102 million in 2004, an increase of 18% due primarily to higher costs for purchased conversion, which have trended upward with the rise in the UF₆ spot price. In 2005, the cost of purchased conversion rose about 50% over 2004, due to purchases made to replenish inventory drawn down as a result of the 2004 strike at the Port Hope facility. On a per unit basis, the cost of products and services sold increased by about 18% over the previous year.

DEPRECIATION

In 2005, DD&R charges were unchanged at \$10 million compared to 2004. Similarly the rate of depreciation per unit was unchanged as volumes were only slightly below 2004 quantities.

GROSS PROFIT

In 2005, gross profit from the conversion business amounted to \$28 million compared to \$33 million in 2004, a decrease of 15%. This decline was attributable to the 18% increase in the unit cost of product sold which more than offset a 12% improvement in the realized price. The gross

profit margin for the conversion business declined to 18% from 23% in 2004.

CONVERSION SERVICES OUTLOOK FOR 2006

Cameco expects revenue from the conversion business to be nearly 20% higher than in 2005 due to an anticipated 15% increase in sales deliveries and a 5% improvement in the average realized selling price. We project the gross profit margin to be 18%,

unchanged from 2005, as an expected increase in the unit cost is likely to offset the higher anticipated price.

We expect conversion sales volume to total about 19.0 million kgU in 2006 compared to 16.6 million kgU in 2005. Our planned production for 2006 is projected to be about 14.2 million kgU, up from 11.4 million kgU in 2005.

The financial results outlook for the conversion business is based on the following key assumptions:

- no significant changes in our estimates for sales volumes, costs, and prices,
- no disruption of supply from our facilities or third-party sources, and
- a US/Canadian spot exchange rate of \$1.16.

CONVERSION SERVICES PRICE SENSITIVITY ANALYSIS

The majority of conversion sales are at fixed prices with inflation escalators. In the short term, Cameco's financial results are relatively insensitive to changes in the spot price for conversion. The newer fixed-price contracts generally reflect longer-term prices at the time of contract award. Therefore, in the coming years, our contract portfolio will be positively impacted by higher fixed-price contracts.

Electricity generated by Cameco's uranium powers one in 13 US households, one in 34 in the EU and one in 30 in Japan.



Nuclear Electricity Generation Business



Through a partnership, Cameco holds a 31.6% interest in the Bruce B reactors.

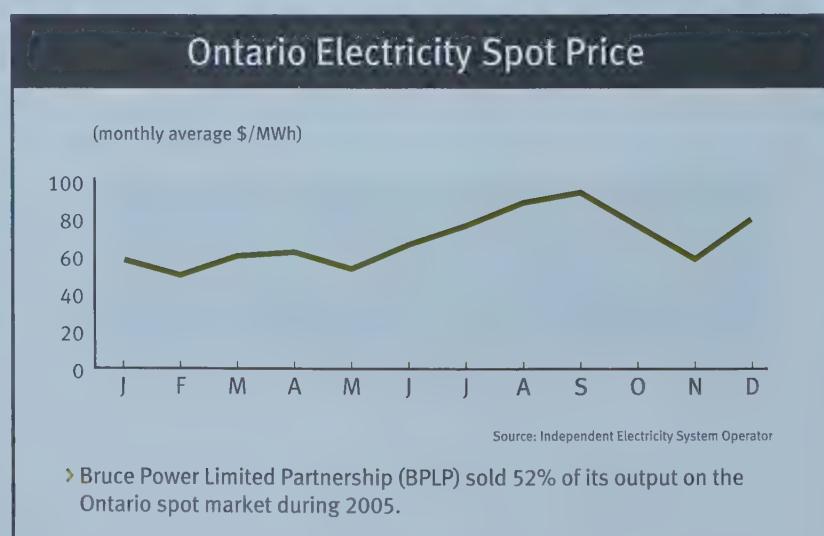
Cameco has a 31.6% interest in the Bruce Power Limited Partnership (BPLP), which operates the four Bruce B nuclear reactors and manages the overall site located in southern Ontario. BPLP's business is the generation and sale of electricity into the Ontario wholesale market. BPLP's four B reactors have a combined net generation capacity of about 3,200 MW, and supply about 17% of Ontario's electricity needs.

NUCLEAR ELECTRICITY GENERATION BUSINESS RESULTS

The 2005 results reflect the new partnership structure that was created on October 31, 2005, following the division of the Bruce Power site assets between Bruce B operations (Bruce Power Limited Partnership or BPLP) and Bruce A operations (Bruce A Limited Partnership or BALP). Effective November 1, 2005, Cameco's 31.6% interest in BPLP includes the four Bruce B units and does not include the A units.

Immediately following the restructuring, Cameco began to proportionately consolidate

its share of BPLP's financial results. Our move to this new method of accounting was driven by incremental changes to the partnership agreement, which resulted in joint control among the three major partners. Proportionate consolidation is required for investments in jointly controlled entities. For the first 10 months of 2005, our



financial results reflect a six-unit operation that is accounted for on an equity basis. For the last two months in the year, our results reflect a four-unit operation, accounted for on a proportionate basis.

NUCLEAR ELECTRICITY GENERATION BUSINESS HIGHLIGHTS

EARNINGS

For 2005, BPLP earnings before taxes were \$520 million prior to the loss resulting from the Bruce Power restructuring compared to \$338 million in 2004. This increase primarily reflects higher realized electricity prices as a result of strong demand, partially offset by a 3% decrease in capacity factor compared to 2004. In 2005, Cameco's share of earnings before tax from BPLP amounted to \$170 million (of which \$165 million was accounted for under the equity method) compared to \$121 million in 2004.

REVENUE

In 2005, revenue totalled \$1,858 million, up 17% from 2004. BPLP's realized price averaged \$58.00 per MWh from a mix of contract and spot sales, a 23% increase over last year. The Ontario electricity spot price averaged about \$68.00 per MWh during 2005 compared to \$50.00 per MWh a year earlier. During 2005, about 48% of BPLP's output was sold under fixed-price contracts, the same as in 2004.

The BPLP units achieved a total capacity factor of 79% in 2005, down from 82% in 2004. These units produced 30.8 TWh in 2005, a decrease of 2.8 TWh over the previous year. This decrease reflects:

- the removal of units A3 and A4 output after October 31, 2005 from BPLP results due to the restructuring,
- planned outages of units A3 and A4 prior to the restructuring,
- planned outages on units B5 and B7, and
- unplanned outages, including the 29-day outage of unit B6 to replace its main output transformer and 17-day outage on unit B6 to repair the refuelling machine.

Electricity Business Highlights

Bruce Power Limited Partnership (100% basis)	2005	2004	% change
Output-terawatt hours (TWh)	30.8	33.6	(8)
Capacity factor %*	79	82	(4)
Realized price (\$/MWh) (\$ millions)	58	47	23
Revenue	1,858	1,583	17
Operating costs	1,273	1,178	8
-cash costs (materials, labour, services and fuel)	1,079	1,017	6
-non-cash costs (depreciation and amortization)	194	161	20
Earnings before interest and taxes	585	405	44
Interest	65	67	(3)
Earnings before taxes	520	338	54
Cash from operations	771	446	73
Capital expenditures (including sustaining capital)	335	359	(7)

*Capacity factor for a given period represents the amount of electricity actually produced for sale as a percentage of the amount of electricity the plants are capable of producing for sale.

COSTS

For 2005, operating costs were \$1,273 million compared with \$1,178 million in 2004. About 95% of BPLP's operating costs are fixed. As such, most of the costs are incurred whether the plant is operating or not. On a per MWh basis, the operating cost in 2005 was \$40.00 per MWh, compared with \$35.00 per MWh for 2004. The increase in unit cost is primarily due to lower output because of higher planned and unplanned outages, related outage costs, and higher depreciation and amortization costs in 2005.

Cameco's Earnings From BPLP

(\$ millions)	2005	2004	% change
BPLP earnings before taxes (100%) ¹	520	338	54
Cameco's share of pre-tax earnings before adjustments	164	107	53
Adjustments:			
Sales contract valuation	13	21	(38)
Interest capitalization	-	2	-
Interest income on loan to BPLP	7	8	(13)
Fair value increments on assets ²	(14)	(17)	(18)
Pre-tax earnings from BPLP ¹	170	121	40
BPLP distributions	1,033	-	-
Cameco's share	326	-	-

¹ Excludes loss recorded on the restructuring of Bruce Power.

² Reflects the amortization of Cameco's excess purchase price over book value of assets.

2006 BPLP Capital Expenditures

Bruce Power Limited Partnership (100%)
(\$ millions)

2006 BPLP Capital Plan	Bruce B Specific	Common Capital	Total BPLP
Category:			
Power uprate	12	0	12
Infrastructure	6	9	15
Improvement	12	15	27
Sustaining	53	16	69
Total Capital Plan	83	40	123

their targeted capacity factors and that there will be no significant changes in current estimates for costs and prices.

2006 PLANNED OUTAGES

In 2006, capacity factors for the B units are expected to average in the low 90% range compared to 79% in 2005. A significant reduction in time and expenditure on refurbishment programs is anticipated, with only one planned Bruce B outage. This outage is expected to last for two months, beginning in the third quarter.

CASH FLOW OPERATIONS

For 2005, BPLP generated \$771 million in cash from operations compared to \$446 million in 2004 due to higher prices.

CAPITAL EXPENDITURES

In 2005, capital expenditures were \$335 million compared to \$359 million in 2004 and down from the \$375 million expected in 2005. The decrease in capital expenditures was due to the deferral of some capital programs to 2006 and to the reorganization of Bruce Power, with the Bruce A-related capital expenditures, now the responsibility of the Bruce A Limited Partnership.

OUTLOOK FOR 2006

BPLP earnings in 2006 are projected to be marginally higher than in 2005 mainly as a result of fewer outages. This earnings outlook assumes the B units will achieve

2006 CAPITAL EXPENDITURES (100%)

Bruce Power capital expenditure program for the four B units is expected to total \$123 million. This includes \$69 million for sustaining capital with the balance for power uprates, infrastructure and improvements.

Cameco expects that funding of these projects will come entirely from BPLP cash flows. However, available funds will depend on the electricity market prices and the operational performance of the four B units.

ELECTRICITY PRICE SENSITIVITY ANALYSIS

BPLP has 13 TWh sold under fixed-price contracts for 2006. This would represent about 50% of Bruce B's generation at its planned capacity factor. A \$1.00 per MWh change in the spot price for electricity in Ontario would change Cameco's after-tax earnings from BPLP by about \$3 million.

Nuclear energy generated at Bruce Power is clean, reliable and affordable.





In 2006, Centerra successfully added more gold reserves at both Kumtor (above) and Boroo.

CENTERRA

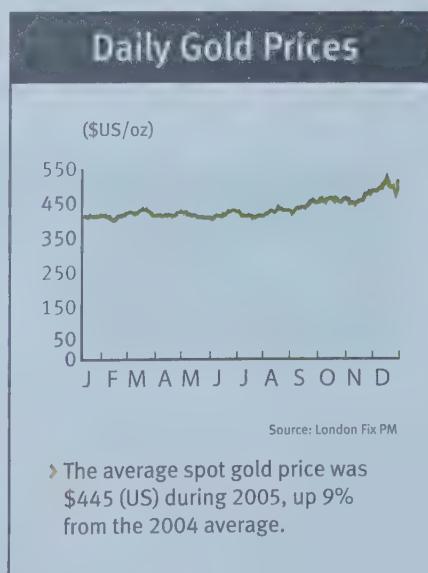
Cameco owns 52.7% of Centerra, which is listed and publicly traded on the TSX. Centerra began trading on the TSX under the symbol CG in June 2004. We transferred substantially all of our gold assets to Centerra as part of our strategy to unlock the value contained in these gold properties.

The geographic focus of Centerra's exploration, development, and acquisition efforts is in Central Asia, the former Soviet Union, and other emerging markets. Centerra owns 100% of the Kumtor mine in the Kyrgyz Republic and a 95% interest in the Boroo mine in Mongolia. The company is the operator of both mines. Centerra also has interests in exploration properties, including a 100% interest in the Gatsuurt property in Mongolia,

35 kilometres from the Boroo mine, and a 62% joint-venture interest in the REN property in Nevada.

Centerra's growth strategy is to increase its reserve base and expand its current portfolio of gold mining operations by:

- developing new reserves at existing mines from in-pit, adjacent and regional exploration,
- advancing late stage exploration properties by additional drill programs, and feasibility studies as warranted, and
- actively pursuing selective acquisitions or mergers, with a disciplined focus on mid- to advanced-stage exploration and development properties primarily in Central Asia, the former Soviet Union and other emerging markets.



Centerra recently issued updated estimates on the reserves and resources at its operating mines. Reserves of 2.3 million ounces of gold have been added at Kumtor before accounting for the production of 614,000 ounces of contained gold in 2005. The average reserve grade has also increased from 3.3 grams per tonne (g/t) gold to 3.8 g/t. At Boroo, reserves of 349,000 ounces of gold have been added which replace reserves mined in 2005. Additionally, 2.5 million ounces of measured and indicated resources have been added to Centerra's resource base.

As of December 31, 2005, on a 100% project basis, Centerra's proven and probable reserves totalled 6.2 million ounces of contained gold (Cameco's share is 3.2 million ounces). Based on these estimates, the additional reserves will extend the Kumtor mine life by almost three years and the Boroo mine life by approximately one year. For more information, including a caution on the risks associated with the mine life extension and reserve estimates, see Cameco's and Centerra's news releases dated January 23, 2006.

The technical information provided for Centerra's reserves and resources noted above was prepared under the supervision of Robert S. Chapman, M.Sc., P.Geo., and Centerra's director, mergers and acquisitions, a qualified person for the purpose of National Instrument 43-101.

Centerra is building its exploration program to further expand its reserve and resource base and is actively seeking acquisitions. Cameco believes that Centerra will be successful in its growth strategy and ultimately add more value to our investment in Centerra.

In the longer term, Cameco will look for the right opportunity to reduce and ultimately fully divest of its gold investment. It is not our intention to sell quickly, but rather to encourage Centerra to grow and gain value for Cameco's shareholders. The decision whether to divest will also depend on the need to fund other investment opportunities in the nuclear energy business.

For further information on Centerra, refer to its annual report and annual information form for 2005.

GOLD OPERATING RESULTS

The operating results of Kumtor have been fully consolidated as of June 22, 2004. Prior to that, Cameco proportionately consolidated its interest in Kumtor. Cameco also fully consolidates the results of Boroo, Centerra's gold mine in Mongolia. Cameco adjusts for a 47% minority interest in Centerra, which reflects that share of earnings attributable to shareholders other than Cameco.

GOLD FINANCIAL RESULTS

In 2005, revenue from our gold business rose by \$89 million to \$412 million compared to 2004. This increase was due largely to the full consolidation of Kumtor's results, a full year of production at Boroo and higher realized gold prices. The realized price for gold sales increased to \$433 (US) in 2005 compared to \$397 (US) per ounce in 2004.

Gold revenue included proceeds from the sale of gold in the current period as well as the amortization of deferred charges related to previously closed gold hedge contracts in 2004. The recognition of the deferred charges causes the realized gold price to vary relative to the average spot price for the period. In 2005, the deferred charges amounted to \$7.00 (US) per ounce compared to \$11.00 (US) per ounce in 2004.

Gold production at Kumtor was 501,000 ounces in 2005, a decline of 24% over 2004 levels due mainly to a lower mill head grade that averaged 3.4 g/t compared to 4.4 g/t last year.

Boroo gold production in 2005 was 286,000 ounces compared to 218,000 ounces in 2004 due to a full year of production following the start of operations in 2004. The average head grade of ore fed to the mill was 4.2 g/t compared to 4.5 g/t last year.

The gross profit margin for gold declined to 26% in 2005 compared to 34% in 2004 due to lower grades, and the higher cost of labour, taxes and consumables.

GOLD OUTLOOK FOR 2006

Based on Centerra's current operations, total production for the year is forecast at 729,000 ounces, a decline of about 7% from 2005 primarily as a result of lower grades at both mines and lower recovery at Kumtor.

At Kumtor, production in 2006 is expected to decline to 461,000 ounces from 501,000 ounces in 2005, due to a

Gold Business Financial Highlights

Fully consolidated financial highlights including the minority interest.

	2005	2004	% change
Revenue (\$ millions)	412	323	28
Gross profit (\$ millions)	107	108	(1)
Gross profit (%)	26	34	(24)
Selling price (\$US/ounce)	433	397	9
Sales volumes (ounces) ¹	781,000	619,000	26
Production (ounces) ²	787,000	641,000	23

¹ Comprising 100% of Boroo and one-third of Kumtor to June 22, 2004 and 100% thereafter.

² Represents 100% of production from the Kumtor and Boroo mines.

lower mill head grade that is expected to average 3.3 g/t compared to 3.4 g/t in 2005 and lower recovery.

For Boroo, the outlook for 2006 calls for production to decline to 268,000 ounces from 286,000 ounces in 2005, due to a lower mill head grade that is expected to average 3.9 g/t compared to 4.2 g/t in 2005.

Total unit cash cost for 2006 is expected to rise reflecting the lower projected production.

Centerra expects the current gold industry's strong fundamentals to continue to exert upward pressure on price. As such, Centerra currently plans to leave its gold production unhedged.

GOLD PRICE SENSITIVITY ANALYSIS

For 2006, a \$25.00 (US) per ounce change in the gold spot price would change Cameco revenue by about \$21 million (Cdn), cash flow by about \$20 million (Cdn) and net earnings by about \$9 million (Cdn).

2005 Fourth Quarter Consolidated Results

Consolidated revenue rose 45% to \$522 million in the fourth quarter of 2005, while our adjusted net earnings doubled to \$74 million (\$0.20 per share). The significant improvement in the results was due to higher earnings from BPLP and improved results in the uranium business.

The improvement was partially offset by higher expenses for administration and exploration. Our total costs for administration, exploration, interest and other were about \$57 million, \$16 million higher than 2004. Of this, administration costs were \$12 million higher due to stock compensation charges primarily attributable to increased share prices (\$4 million), charges for post-retirement benefits (\$2 million), business development costs at Centerra (\$1 million), and expenditures for regulatory compliance, business process improvements and workforce maintenance.

Exploration expenditures rose by \$4 million to \$18 million due to increased exploration activity in both the uranium and gold businesses. In uranium exploration, a \$3 million increase in expenditures was related to programs in Saskatchewan, Australia and the Northwest Territories. In the gold business, Centerra increased its exploration expenditures by \$1 million compared to 2004. The higher charges reflect increased gold exploration activity in the Kyrgyz Republic and Mongolia.

2005 Q4 Consolidated Financial Highlights

(\$ millions except per share amounts)	Three Months Ended Dec. 31/05	Three Months Ended Dec. 31/04	% change
Revenue	522	361	45
Earnings from operations	57	46	24
Cash provided by operations ¹	91	59	54
Net earnings	81	37	119
Earnings per share – basic ²	0.23	0.10	130
Earnings per share – diluted ²	0.22	0.10	120
Adjusted net earnings ³	74	37	100

¹ After working capital changes.

² Data reflects the stock split on February 17, 2006.

³ 2005 excludes a net gain of \$7 million (\$0.04 per share) related to the gain on sale of Energy Resources of Australia Ltd shares (\$69 million) and the loss on the restructuring of the Bruce Power Limited Partnership (\$62 million).

During the fourth quarter, the company recorded a benefit related to a court decision finding that the resource surcharge paid to the Government of Saskatchewan was deductible in calculating federal and provincial taxable income. Previously, the surcharge had not been a tax-deductible expense. As a result, the company recorded a \$10 million recovery of income tax expense.

Our effective tax rate, excluding adjustments, increased to 16% in the fourth quarter from 10% in the same period of 2004 due to a greater proportion of total income being taxable in Canada.

Earnings from operations were \$57 million in the fourth quarter of 2005 compared to \$46 million in 2004. The aggregate gross profit margin decreased to 22% from 24% in 2004.

For more information on the fourth quarter of 2005, refer to Cameco's news release dated January 31, 2006.

2004–2005 Quarterly Consolidated Financial Highlights

The following points are intended to assist the reader in analysing the trends in the quarterly financial highlights for 2005:

- Revenue, driven by timing of deliveries in our uranium and conversion businesses, tends to be higher in the fourth quarter.
- However, net earnings do not trend directly with revenue because they are significantly influenced by results from BPLP. Prior to November 1, 2005, the equity method of accounting was applied to the investment in BPLP and thus no BPLP revenue was recorded.

- On November 1, 2005, Cameco changed the accounting for BPLP to proportionate consolidation. As such, for the fourth quarter of 2005, we have included our proportionate share of revenue, expenses and cash flows from the Bruce B reactors for November and December.
- Cash from operations tends to fluctuate due largely to the timing of deliveries and product purchases in the uranium and conversion businesses.

(\$ 2005 Consolidated Results

CONSOLIDATED EARNINGS

EARNINGS

In 2005, Cameco recognized an after-tax gain of \$69 million (\$0.20 per share) on the disposal of our 12.8 million shares in Energy Resources of Australia Ltd (ERA). We also recorded an after-tax loss of \$62 million (\$0.18 per share) related to the restructuring of the Bruce Power Limited Partnership. In 2004, Cameco recorded an after-tax gain of \$94 million (\$0.27 per share) related to certain restructuring transactions that led to the creation of Centerra. The following discussion of consolidated earnings excludes these items to provide a more representative comparison of operating results.

Our results reflect the new partnership structure that was created on October 31, 2005, following the division of the Bruce Power site assets between Bruce B operations (Bruce Power Limited Partnership or BPLP) and Bruce A operations (Bruce A Limited Partnership or BALP). Effective November 1, 2005, Cameco's 31.6% interest in BPLP includes the four Bruce B units and does not include the A units.

Also on November 1, 2005, Cameco began to proportionately consolidate its share of BPLP's financial results. This change in the method of accounting was driven by incremental changes to the partnership agreement, which resulted in joint control among the three major partners. Proportionate

consolidation is required for investments in jointly controlled entities.

Consequently, our financial results for the first 10 months of 2005 reflect a six-unit operation, which is accounted for on an equity basis. For the remaining two months in the year, our results reflect a four-unit operation, which is accounted for on a proportionately consolidated basis.

For 2005, our adjusted net earnings were \$211 million (\$0.58 per share), \$26 million higher than the adjusted net earnings of \$185 million (\$0.51 per share) reported in 2004 due largely to improved results in our uranium business and higher earnings from BPLP. The improved earnings were partially offset by higher charges for administration and exploration.

The improvement in the uranium business was due to a higher realized price, mainly due to the significant increase in the spot price for uranium. Earnings from Bruce Power improved due to higher realized prices because of strong demand.

Our earnings from operations were \$123 million in 2005 compared to \$125 million in 2004. Cameco's aggregate gross profit was unchanged at 23%.

CORPORATE EXPENSES

Administration

In 2005, administration costs were \$108 million, an increase of \$38 million due to stock compensation charges from increased share prices (\$12 million), administration and business development costs at Centerra (\$11 million), Sarbanes Oxley (SOX) compliance (\$2 million), post-retirement benefits (\$2 million) and community donations (\$1 million). The remaining increase in administrative expenses was related largely to business process improvements, regulatory compliance and an increase in workforce.

2004-2005 Quarterly Consolidated Financial Highlights

(\$ millions except per share amounts)	2005					2004				
	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1	Year
Revenue	522	288	287	216	1,313	361	313	242	132	1,048
Net earnings ¹	81	79	32	26	218	37	52	151	39	279
Earnings per share ² – basic	0.23	0.22	0.10	0.08	0.63	0.10	0.15	0.44	0.12	0.81
Earnings per share ² – diluted	0.22	0.21	0.09	0.08	0.60	0.10	0.15	0.41	0.12	0.78
Earnings per share ² – adjusted and diluted	0.20	0.21	0.09	0.08	0.58	0.10	0.11	0.18	0.12	0.51
Cash from operations	91	148	(45)	84	278	59	140	(17)	46	228

¹ There were no discontinued operations or extraordinary items in 2004 or 2005.

² Data reflects the stock split on February 17, 2006.

Interest and Other

In 2005, interest and other costs declined by \$2 million compared to 2004 due to lower gross interest charges (\$5 million) and higher interest income on cash balances (\$5 million). These improvements were partially offset by expenses related to the ineffective portion of derivative hedging instruments (\$8 million). Refer to note 11 in the notes to consolidated financial statements.

Income Taxes

In 2005, total income tax expense amounted to \$30 million compared to \$73 million for 2004. In 2005, the company recorded a benefit related to a court decision finding that the resource

surcharge paid to the government of Saskatchewan was deductible in calculating federal and provincial taxable income. Previously, the surcharge had not been a tax-deductible expense. As a result, the company recorded a \$10 million recovery of income tax expense.

Excluding the tax recovery related to resource surcharges and other adjustments, the effective rate for income taxes in 2005 increased to 20% from 17% in 2004 as a higher proportion of earnings came from jurisdictions with higher tax rates.

Income tax expense also includes the large corporation tax and other capital taxes, which amounted to about \$6 million in each of 2005 and 2004. Refer to note 13 in the notes to consolidated financial statements.

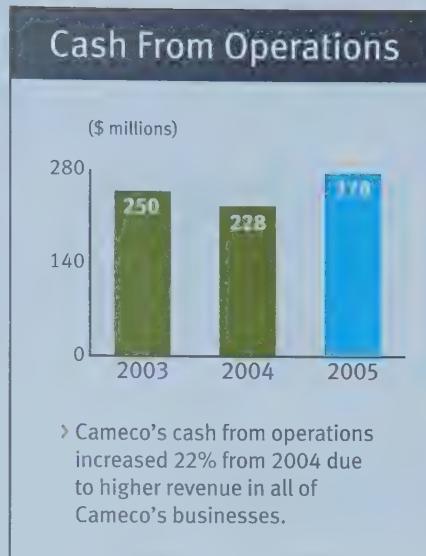
CASH RESOURCES

OPERATING ACTIVITIES

In 2005, Cameco generated record cash from operations of \$278 million compared to \$228 million in 2004. The increase of \$50 million was mainly attributable to higher revenues in the uranium and gold businesses compared to the previous year and cash distributions received from BPLP. This was partially offset by a significant increase in accounts receivable year-over-year. Due to the timing of sales, the accounts receivable balance increased to \$340 million at December 31, 2005, compared to \$183 million at December 31, 2004.

INVESTING ACTIVITIES

In 2005, Cameco generated \$21 million from its investing activities primarily due to the restructuring of BPLP (\$200 million) and the sale of its shares in ERA (\$102 million). Excluding these inflows, cash used in investing activities increased to \$280 million from \$161 million in 2004. This increase of \$119 million was



largely attributable to the development activity at Cigar Lake and Inkai as well as greater capital expenditures by Centerra. In addition, investing activities reflect \$23 million in capital expenditures at BPLP.

For 2005, investing activities included \$22 million for sustaining capital at McArthur River/Key Lake, \$81 million in development costs at Cigar Lake and \$26 million in capitalized interest charges.

FINANCING ACTIVITIES

In 2005, Cameco generated \$101 million through its financing

activities. In 2005, Cameco completed a debenture offering that netted proceeds of \$298 million. Through the year, the company repaid a total of \$181 million in short-term and long-term debt. In addition, \$150 million in debentures were redeemed in January 2006.

BALANCE SHEET

The proportionate consolidation of BPLP had a significant impact on our balance sheet at December 31, 2005, causing many of the reported amounts to increase considerably. The largest of the incremental values are provided in the following table.

Balance Sheet

(\$ millions)	
Accounts receivable	65
Property, plant and equipment	520
Long-term investments	(253)
Accounts payable	91
Long-term debt	204

CASH

At December 31, 2005, our consolidated cash balance totalled \$623 million with Centerra holding about \$236 million of this amount.

INVENTORIES

Compared to the end of 2004, our product inventories increased by \$13 million to \$400 million at the end of 2005. Most of the increase in inventory was attributable to higher unit costs due to increased costs for purchased uranium and conversion. See note 3 to the consolidated financial statements.

DEBT

At December 31, 2005, our total debt was \$859 million, an increase of \$340 million compared to December 31, 2004. At December 31, 2005, our consolidated net debt to capitalization ratio was 9%, down from 13% at the end of 2004. On January 17, 2006, we used cash on hand to redeem a total of \$150 million in debentures.

INVESTMENTS

Cameco has a number of investments in publicly traded entities. The following table illustrates the book and market values for its more significant holdings.

Investments		
(\$ millions)	Book Value	Market Value
Centerra	411	1,069
UEX Corporation	11	167
Total	422	1,236

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Cameco enters into certain transactions that are not required to be recorded on its balance sheet. These activities include the issuing of financial assurances, derivative instruments and long-term product purchase contracts. These arrangements are discussed in the following sections of this MD&A and the notes to the financial statements:

- Financial assurances:
 - Nuclear Electricity Generation Business,
 - Liquidity and Capital Resources,
 - Risks and Risk Management, and
 - notes 6, 7 and 22 of the consolidated financial statements.
- Derivative instruments:
 - Uranium Business,
 - Risks and Risk Management,
 - Critical Accounting Estimates, and
 - note 22 of the consolidated financial statements.
- Long-term product purchase contracts:
 - Uranium Business,
 - Liquidity and Capital Resources, and
 - note 21 of the consolidated financial statements.



Consolidated Outlook for 2006

In 2006, Cameco expects consolidated revenue to grow by more than 40% over 2005 due to the improved uranium markets and the proportionate consolidation of BPLP revenue. On a consolidated basis, our gross profit margin is projected to improve to 28% from 23% reported in 2005.

In the uranium business, we expect revenue to be about 20% higher due to a stronger realized price and increased sales volumes. We also anticipate that revenue from the conversion business will be about 20% higher than in 2005 due to an anticipated 15% increase in sales deliveries and an increase in the average realized selling price.

BPLP earnings in 2006 are projected to be marginally higher than in 2005 mainly because of fewer outages. This earnings outlook assumes the B units will achieve a targeted capacity factor in the low 90% range and that there will be no significant changes in our current estimates for costs and prices.

Gold production in 2006 is forecast at 729,000 ounces, a decline of about 7% from 2005. Unit costs are expected to increase primarily due to lower ore grades at the Boroo and Kumtor mines and lower recovery at Kumtor.

The financial outlook noted above for the company is based on the following key assumptions:

- no significant changes in our estimates for sales volumes, costs, and prices,
- no disruption of supply from our facilities or third-party sources, and
- a US/Canadian exchange rate of \$1.16.

Administration costs are projected to be about 10% greater than in 2005. The increase in administration reflects higher charges for stock compensation, business development and costs to maintain the workforce. Exploration costs are expected to be about \$55 million in 2006. Of this, \$32 million is targeted for uranium.

For 2006, the effective tax rate is expected to be in the range of 15% to 20%. This range is based on the projected distribution of income among the various tax jurisdictions being similar to that of 2005.

In 2006, we expect total capital expenditures, including the gold business, to increase by 70% to \$484 million. Capital expenditures are classified as growth or sustaining. Growth capital is defined as capital spent to bring on incremental production plus business development initiatives. The remainder is classified as sustaining capital. Cameco expects it will have sufficient debt capacity and cash from operations to fund our capital expenditure program.

Capital Expenditures

(Cameco's share in \$ millions)

	2006 Plan	2005 Actual
Growth Capital		
McArthur River	4	9
US ISL	5	—
Cigar Lake	90	81
Conversion Services	3	—
Inkai	35	18
Centerra ¹	100	22
Total Growth	237	130
Sustaining Capital		
McArthur River/Key Lake	42	22
US ISL	28	19
Rabbit Lake	32	13
Conversion Services	38	18
Bruce Power (BPLP) ²	39	23
Centerra ¹	18	18
Other	22	16
Total Sustaining	219	129
Capitalized interest	28	26
Total	484	285

¹ Represents 100% of Centerra's expenditures.

² Includes Cameco's proportionate share from November 1, 2005 forward.

For growth projects, total expenditures are projected to be \$237 million, an increase of \$107 million compared to 2005. The increase is attributable to:

- development activity at Cigar Lake and Inkai,
- expansion of production capacity at McArthur River and US ISL mines, and
- equipment and infrastructure expenditures to increase mine life at Kumtor.

Expansion at McArthur River and development at Inkai are subject to regulatory approvals.

We expect sustaining capital expenditures to be higher in 2006 than in 2005 due to ongoing mine development work

at McArthur River and Rabbit Lake, establishing freeze walls for two new mining areas at McArthur River, water treatment projects at Key Lake and Rabbit Lake, and well field expansions at the US ISL operations. Sustaining capital expenditures will also increase at conversion services to improve production processes and meet new regulatory requirements.

Liquidity and Capital Resources

OVERVIEW

Financial liquidity represents the company's ability to fund future operating activities and investments. Some important measures of liquidity are summarized in the table below.

In 2005, Cameco issued \$300 million of 10-year, 4.7% unsecured debentures, maturing September 16, 2015. Cameco also extended its revolving credit facility by one year to be available until November 30, 2010. In December, we announced our intention to redeem in full \$100 million of 6.9% debentures, due July 12, 2006 and \$50 million of 7% debentures, due July 6,

2006. The total redemption price of \$152 million plus accrued interest was paid on January 17, 2006.

INDICATORS DEFINED

Cash provided by operations reflects the net cash flow generated by operating activities after consideration for changes in working capital.

Cash provided by operations to net debt indicates the company's ability to meet debt obligations from internally generated funds.

Net debt to total capitalization measures the company's use of financial leverage. A lower percentage means less

Liquidity Indicators

	2005	2004	2003	2002	2001
Cash provided by operations (\$ millions)	278	228	250	241	102
Cash provided by operations/net debt* (%)	118	69	48	66	20
Net debt*/total capitalization (%)	9	13	22	18	24

*Total debt less cash and cash equivalents based on consolidated amounts.

reliance upon debt as a source of financing. Although debt is a lower cost form of financing compared to equity, a lower percentage of debt also represents lower repayment obligations. At December 31, 2005, the consolidated cash balance totalled \$623 million, with Centerra holding about \$236 million of this amount for its own use.

CREDIT RATINGS

Cameco has one series of senior unsecured debentures outstanding and is a frequent issuer of commercial paper. On January 17, 2006, Cameco redeemed in full \$100 million of 6.9% debentures, due July 12, 2006 and \$50 million of 7% debentures, due July 6, 2006. Moody's Investors Service had been specifically contracted to rate these debentures and performs no other services for Cameco. As a result, effective January 17, 2006, Moody's withdrew its rating related to Cameco.

The following table provides Cameco's remaining third-party ratings for our commercial paper, senior debt and convertible debentures, as of December 31, 2005.

Credit Ratings		
Security	Dominion Bond Rating Service Limited	Standard & Poor's
Commercial Paper	R-1 (low)	A-2
Senior Unsecured Debentures	A (low)	BBB+
Convertible Debentures	BBB (high)	Not Rated

DEBT

In addition to cash from operations, debt is used to provide liquidity. Cameco has sufficient borrowing capacity to meet its current requirements.

Cameco has access to approximately \$750 million in unsecured lines of credit. Commercial lenders have provided a \$500 million unsecured revolving credit facility, available until November 30, 2010, with annual extension

provisions. Up to \$100 million of this facility can be used to support letters of credit. The facility ranks equally with all of Cameco's other senior debt. At December 31, 2005, there were no amounts outstanding under this credit facility.

Cameco may borrow directly from investors by issuing commercial paper up to a maximum of \$400 million. To the extent necessary, we use the revolving credit facility to provide liquidity support for our commercial paper program. At December 31, 2005, there were no amounts outstanding.

Cameco also has agreements with various financial institutions to provide up to approximately \$250 million in short-term borrowing and letter of credit facilities. These arrangements are predominantly used to fulfill regulatory requirements to provide financial assurance for future decommissioning and reclamation of our operating sites. Outstanding letters of credit at December 31, 2005 amounted to \$207 million.

Cameco has operated within the investment-grade segment (high-credit quality) of the market when obtaining credit. The cost, terms and conditions under which financing is available vary over time. While future access to credit cannot be assured, it was readily available during 2005.

DEBENTURES

Cameco's senior unsecured debentures consist of \$300 million of debentures that bear interest at the rate of 4.7% per annum and which mature September 16, 2015. On January 17, 2006, Cameco redeemed \$100 million of 6.9% senior unsecured debentures and \$50 million of 7% senior unsecured debentures for a total redemption price of \$152 million plus accrued interest.

CONVERTIBLE DEBENTURES

Cameco has \$230 million outstanding in convertible debentures. The debentures bear interest at 5% per annum,

Contractual Cash Obligations

As at December 31, 2005 (\$ millions)	Total	Due in Less Than 1 Year	Due in 1-3 Years	Due in 4-5 Years	Due After 5 Years
Long-term debt ¹	884	157	16	22	689
Interest on long-term debt	240	26	51	51	112
Other liabilities	111	14	18	15	64
Unconditional product purchase obligations ^{2,3}	1,231	165	305	280	481
Total contractual cash obligations	2,466	362	390	368	1,346

¹ Includes the unamortized value of the conversion option associated with the convertible debentures. See note 6 to the consolidated financial statements.
² Denominated in US dollars. Converted to Canadian dollars at the December 31, 2005 rate of \$1.1659.
³ Virtually all of Cameco's product purchase obligations are under long-term, fixed-price arrangements.

Commercial Commitments

As at December 31, 2005
(\$ millions)

	Total amounts committed
Standby letters of credit ¹	207
Bruce Power Limited Partnership guarantees ²	184
Kumtor Gold Company purchase commitments ³	72
Total commercial commitments	463

¹ The standby letters of credit maturing in 2006 were issued with a one-year term and will be automatically renewed on a year-by-year basis until the underlying obligations are resolved. These obligations are primarily the decommissioning and reclamation of Cameco's mining and conversion facilities. As such, the letters of credit are expected to remain outstanding well into the future.

² At December 31, 2005, Cameco's total commitment for financial assurances given on behalf of BPLP is estimated to be \$184 million. See note 16 to the consolidated financial statements.

³ In 2005, Kumtor Gold Company entered into contracts to purchase plant and equipment for \$62 million (US). These commitments are expected to be settled in 2006. Converted to Canadian dollars at the December 31, 2005 rate of 1.1659.

mature on October 1, 2013, and at the holder's option are convertible into common shares of Cameco. The debentures are redeemable by the company beginning October 1, 2008 at a redemption price of par plus accrued interest. Refer to note 6 in the notes to consolidated financial statements.

DEBT COVENANTS

Cameco is bound by certain covenants in its general credit facilities. The financially related covenants place restrictions on total debt, including guarantees, and set minimum levels for net worth. As of December 31, 2005, Cameco met these financial covenants and does not expect its operating and investment activities in 2006 to be constrained by them.

COMMERCIAL COMMITMENTS

At December 31, 2005, commercial commitments included standby letters of credit of \$207 million and financial guarantees for BPLP of \$184 million.

In 2005, Kumtor Gold Company entered into contracts to purchase plant and equipment for \$62 million (US). These commitments are expected to be settled in 2006.

2003–2005 Consolidated Financial Highlights

The following points are intended to assist the reader in analysing the trends in the annual financial highlights for the years 2003 through 2005.

- Revenue has trended higher over the three-year period, rising by 59% over 2003. More than half of this increase was related to the gold business where revenues have

increased due to the commissioning of the Boroo mine in 2004 as well as a change in ownership interest in the Kumtor gold mine in the same year, which resulted in the full consolidation of Kumtor's results.

- Revenue has also been influenced by improved prices in the uranium and conversion services businesses. Our realized price for uranium concentrates has increased consistently over the three-year period, averaging \$20.14 (Cdn) per pound in 2005 compared to \$16.08 (Cdn) per pound for 2003, a 25% improvement. We have also seen consistent improvement in the price for conversion services, where our average realized price has risen by 10% during the period.
- Earnings from operations have also trended higher during the period but the rise has been tempered by higher costs for product sold, higher administration charges and greater investment in exploration. The increase in the cost of sales was attributable to higher costs for purchased uranium and conversion services, driven by rising spot prices. Our administration costs have risen significantly over the three-year period due to establishing Centerra as a separate publicly traded company, higher stock compensation expenses and higher costs for regulatory compliance.
- Net earnings have not trended with revenue due to two main reasons. First, our results are significantly influenced by operating results from Bruce Power. Until November 1, 2005, we used the equity method to account

2003–2005 Consolidated Financial Highlights

For the year ended December 31 (\$ millions except per share amounts)	2005	2004	2003
Revenue	1,313	1,048	827
Earnings from operations	123	125	75
Net earnings	218	279	208
Earnings per share – basic ¹	0.63	0.81	0.62
Earnings per share – diluted ¹	0.60	0.78	0.61
Adjusted net earnings ²	211	185	127
Cash provided by operations	278	228	250
Total assets	4,773	4,052	3,431
Long-term financial liabilities	1,654	1,306	1,346
Dividends per common share	\$0.12	\$0.10	\$0.10

¹ Data reflects the stock split on February 17, 2006 and a previous stock split on December 31, 2004.

² Net earnings for 2005 have been adjusted to exclude \$7 million in net earnings related to the gain on sale of Energy Resources of Australia Ltd shares (\$69 million) and the loss recognized in restructuring the Bruce Power Limited Partnership (\$62 million). 2004 net earnings were adjusted to exclude a gain of \$94 million (after tax) on the restructuring of our gold business. 2003 net earnings were adjusted to exclude income tax recoveries of \$81 million as the result of changes in tax legislation.

for the investment in Bruce Power and therefore no revenue was recorded prior to the time. Second, our earnings have been influenced by unusual, one-time items over the past three years. In 2003, we recorded income tax recoveries of \$81 million as the result of changes in tax legislation. In 2004, we recorded a gain of \$94 million (after tax) on the restructuring of our gold business. In 2005, there were two such items: 1) the disposition of our investment in ERA which resulted in a gain of \$69 million (after tax), and 2) the restructuring of the BPLP partnership which resulted in an after-tax loss of \$62 million.

- Excluding the adjustments noted above, net earnings have increased by 66% in 2005 over the \$127 million recorded in 2003. The 46% increase to \$185 million in 2004 from 2003 was attributable to improved results in the uranium and gold businesses as well as stronger performance at Bruce Power. The improvement in the uranium business was due to a higher realized price, which was related mainly to the significant increase in the spot price for uranium. Earnings from Bruce Power benefited from a 37% increase in generation as a result of the restart of two A reactors (units 3 and 4). Results from the gold business improved due to increased production and a higher realized selling price. The improvement in net earnings from 2004 to 2005 was due largely to improved results in our uranium business and higher earnings from Bruce Power. The higher earnings were partially offset by reduced earnings in gold as well as higher charges for administration and exploration. The improvement in the uranium profits was due to the higher average realized price, which was mainly the result of higher prices under fixed-price contracts and a higher uranium spot price. The earnings from Bruce Power benefited from a 23% increase in its average realized price to \$58.00 per MWh as a result of higher electricity spot prices.
- In 2005, Cameco generated record cash from operations of \$278 million compared to \$228 million in 2004. This increase of \$50 million was mainly attributable to higher revenues in the uranium and gold businesses compared to the previous year and cash distributions received from BPLP. Cash from operations of \$228 million in 2004 represented a decline of \$22 million compared to the \$250 million recorded in 2003. This decrease was primarily due to an increase in inventory levels during 2004.
- The major components of Cameco's long-term financial liabilities are long-term debt, future income taxes and provision for reclamation. In 2005, Cameco's total long-term financial liabilities rose to \$1,654 million from \$1,306 million at the end of 2004 due primarily to a \$340 million increase in long-term debt. This increase was attributable to a \$300 million debenture issue and the proportionate consolidation of financial results from

BPLP, which added \$204 million to long-term debt. These increases were partially offset by the repayment of commercial paper during the year. Also, on January 17, 2006, Cameco redeemed \$100 million of 6.9% senior unsecured debentures and \$50 million of 7% senior unsecured debentures for a total redemption price of \$152 million plus accrued interest.

- At the end of 2005, Cameco's total assets amounted to \$4,773 million, an increase of \$721 million over the previous year. Most of the increase was due to the proportionate consolidation of financial results from BPLP. In addition, the cash balance rose by \$434 million during the year. The company used \$152 million to redeem outstanding debentures in January 2006. During 2004, total assets increased to \$4,052 million from \$3,431 million at the end of 2003. The primary reason for this increase was the restructuring of the company's gold business which resulted in the full consolidation of Kumtor Gold Company whereas it had previously been proportionately consolidated. As a result of the restructuring, Cameco recorded goodwill amounting to \$187 million.

Outstanding Share Data

On January 31, 2006, Cameco announced that its board of directors had approved a two-for-one stock split of the company's outstanding common shares. This was completed through a stock dividend with all shareholders receiving one additional share for each share owned on the record date of February 17, 2006.

After giving effect to the stock split, there were 349.6 million common shares and one Class B share outstanding at December 31, 2005. In addition, there were 8.7 million stock options outstanding with exercise prices ranging from \$3.13 to \$35.88 per share. Cameco also has convertible debentures in the amount of \$230 million outstanding. This issue may be converted into a total of 21.2 million common shares at a conversion price of \$10.83 per share. The debentures are redeemable by Cameco beginning on October 1, 2008 at a redemption price of par plus accrued interest. At current share prices, we expect existing holders to convert to equity. See notes 6, 9 and 17 of the consolidated financial statements.

Risks and Risk Management

Cameco attempts to mitigate risks that may affect its future performance through a systematic process of identifying, assessing, reporting and managing risks of corporate significance.

Management and the board, both separately and together, discuss the principal risks of our businesses, particularly during the strategic planning and budgeting processes. The board sets policies for the implementation of systems to manage and monitor identifiable risks. The nominating, corporate governance and risk committee is responsible for the oversight of risk management. Management has developed and implemented an enterprise risk management system that reports quarterly to this committee and annually to the board. This enhances the directors' understanding of the principal business risks facing Cameco and improves the company's risk management systems. The reserves oversight committee oversees the estimation of our reserves and the risks inherent in this estimation. In addition, the audit committee monitors certain financial risks and the safety, health and environment committee reviews systems and performance related to safety, health and environmental risk.

The following discusses our approach to managing our most significant risks that may affect our future performance. Also, see the discussion of the company's risk factors contained in Cameco's annual information form and that are likely to influence investors' decisions to purchase or sell our securities. The annual information form is filed on SEDAR at sedar.com and available on the company's website at cameco.com.

BUSINESS RISKS

REGULATORY APPROVAL AND EXPEDIENCY

Regulators must approve the construction, startup, continued operation and decommissioning of most of Cameco's facilities. These facilities are subject to numerous laws and regulations regarding safety and environmental matters, including the management of hazardous wastes and materials.

Significant economic value is dependent on our ability to obtain and renew the licences and other approvals necessary to operate. Failure to obtain regulatory approvals or failure to obtain them in a timely manner would result in project delays or modifications, leading to higher costs. In the extreme, a project may be suspended or terminated, which would negatively impact future earnings and cash flow. For example, we have applied or will be applying for licence renewals and amendments for many of our uranium and fuel services operations.

In November 2004, we submitted an environmental assessment for an increase in the annual licensed capacity at McArthur River and Key Lake to 22 million pounds U_3O_8 per year from 18.7 million pounds. Currently, the CNSC is considering the appropriate process to complete its review of the potential impacts associated with this proposed expansion. Specifically, the CNSC is considering the

significance of the local impact of the accumulation of trace elements in the effluent. We are looking at technical solutions to reduce and/or remove these trace elements from the effluent. We do not know which solutions will ultimately be used and as such we are unable to provide an estimate of cost for mitigation at this point.

We had expected to receive this licence amendment in 2005. If approval is received, we expect it will take about two years to ramp-up production to a sustained planned production rate of approximately 21 million pounds per year. This production rate may change as we gain experience in ramping up production at this operation. Our share of the planned annual production increase of 2.3 million pounds U_3O_8 is 1.6 million pounds. The financial impact of not receiving the licence sooner is the loss of potential sales revenue and earnings.

We decided in 2005 not to proceed with the SEU blending project at our Port Hope conversion facility. The resulting public communication process affected the regulatory approval process, all of which took longer than anticipated. As a result, we are using other SEU blending suppliers to meet Bruce Power's project schedule.

Going forward, we will take a more consultative approach to community relations. For example, we initiated a community consultation process for the Port Hope Vision 2010 project to get public input early in the planning stage. The consultation process alone will cost in excess of \$200,000. The impact of addressing the potential recommendations resulting from the process will most likely add costs to the project, but we are too early in the process to quantify.

In 2006, we will apply for licence renewals for all three fuel services facilities. Each of the existing five-year licences expires in early 2007. If we do not receive our licences in a timely manner, this could result in a loss of production and potentially reduce earnings. The licence renewal process could also lead to amendments to the operating licences, which may result in higher costs or provide additional financial assurances for decommissioning.

In addition to its licence renewal, Zircatec will be applying for a licence amendment to allow the commercial manufacturing of the new fuel containing SEU. If Zircatec does not receive its licence amendment for new fuel, this would mean a loss of potential revenue and an inability to supply Bruce Power with SEU fuel. Bruce Power would have to continue to use natural UO_2 fuel as there are no alternatives that can be used in the near term. This could lead to Bruce Power being de-rated, which would lead to lower output and possibly higher unit costs for Bruce Power. The effect to Cameco would be reduced earnings from Bruce Power.

We have also applied to expand the capacity of the Blind River refinery to support our agreement with Springfields and to add pollution control equipment at our incinerator. If we do not receive approval for the licence capacity expansion at Blind River, it would result in reduced production either at our Port Hope conversion facility or the Springfields facility. The combined production from the two facilities would be limited to 15 million kgU to 16 million kgU. One mitigation measure we have taken to address the risk of delay in regulatory approval is to increase our level of UO_3 inventory.

Cameco is currently preparing supporting documentation for an operating licence application for the Cigar Lake project. CNSC staff and Cameco are also reviewing requirements to allow the transition from a construction to an operating licence. Specifically, we are discussing the process of commissioning the mining and ore processing equipment, after the CNSC is satisfied that the project can advance towards full-scale operation. Cameco needs to apply for an operating licence by early 2007 to allow for mine production in the first half of 2007. If these approvals are not received in a timely fashion, we would face a delay in commencing operations, which would result in the loss of sales and revenue. Cameco's share of production from Cigar Lake, at full production, is expected to be 9 million pounds annually. Through its experience in constructing and operating uranium mines in Saskatchewan, Cameco is familiar with the statutory, regulatory and procedural framework governing new mining projects in Saskatchewan. Based upon its experience to date, Cameco believes that all permits and approvals required for the construction and operation of the Cigar Lake mine will be obtained in a timely fashion.

At the Inkai project, there are two production areas currently in development (blocks 1 and 2). In 2005, the regulatory authorities approved the EA and design plan for a commercial processing facility in block 1 and we began construction. In 2007, we expect to complete and begin commissioning the commercial facility, subject to regulatory approvals. We expect commercial production in 2007. We will apply for a mining licence in 2007 for block 2. Commercial development of block 2 is planned for 2008. Production from block 1 and 2 is expected to total 5.2 million pounds by 2010. If these approvals are not received in a timely fashion, we could face a delay in commencing operations, which would result in the loss of sales and revenue. Cameco's share of production from Inkai, at full production, is expected to be 3.1 million pounds annually. Through its experience in constructing and operating the test mine, Cameco is familiar with the statutory, regulatory and procedural framework governing new mining projects in Kazakhstan and based upon its

experience to date, Cameco believes that all permits and approvals required for operation of the new ISL mine will be obtained in a timely fashion.

Cameco expends significant financial and managerial resources to comply with laws and regulations. A standards and policy department was established in 2005 to enhance the integration of the safety, health and environmental management systems. During 2005, we adopted a new safety, health and environment policy which moves us beyond compliance to a leadership role.

ENVIRONMENTAL REGULATIONS

Environmental regulation affects nearly all aspects of Cameco's operations, imposing very strict standards and controls. Regulation is becoming more stringent in Canada and the US. For example, changes to our operational processes are increasingly subject to regulatory approval, which may in turn result in delays due to the longer and more complex regulatory review and approval processes. These increasing requirements are expected to result in higher administration costs and capital expenditures for compliance.

Changes to environmental regulation could impose further requirements on companies involved in the nuclear fuel cycle. Such changes could include more stringent regulation on emissions and water quality standards, and on property decommissioning and reclamation. These changes could affect Cameco's operational costs, or future decommissioning costs, or lower production levels, negatively impacting future earnings and cash flow.

One example of a regulatory change that impacted our costs was the requirement to implement a quality management system (QMS) at all our Canadian sites including the head office. We implemented the QMS at our Canadian uranium operating sites and at the required head office departments by the end of 2005. In 2006, we are working to extend QMS to include our US sites and the Inkai project. The direct corporate cost of implementing QMS from 2003 to 2005 totalled approximately \$1.2 million. There are also indirect costs related to the sites and corporate office. These indirect costs have not been tracked separately but are included in ongoing operating costs.

Cameco seeks to reduce its environmental impacts as one way to mitigate risks from changes in environmental regulations. For example, at the Port Hope conversion facility, emissions of uranium to air have been reduced by 88% since 1995 through the installation of new equipment and changes to operating procedures.

The historical trend toward stricter environmental regulation is likely to continue. Cameco is investing more capital to improve technical processes in order to lessen our environmental impact.

Going forward, since regulatory requirements change frequently, are subject to changing interpretations and may be enforced in varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations.

LIMITED NUMBER OF CUSTOMERS

The nuclear industry is highly consolidated. As a result, Cameco relies on a relatively small number of customers that purchase a significant portion of the company's uranium concentrates and conversion services. BPLP also relies on a number of major customers for its sales and Zircatec has a significant portion of its sales committed to BPLP and Bruce A Limited Partnership. The loss of any of these large customers, or the reduction in product purchases by these customers, could have a material adverse effect on Cameco's financial condition, liquidity and results of operations.

Uranium and Conversion Services

For the period 2006 through 2008, our five largest customers are anticipated to account for about 35% of our contracted supply of U_3O_8 . For the period 2006 through 2008, our five largest UF_6 conversion customers are anticipated to account for approximately 34% of our contracted supply of UF_6 conversion services. Cameco is currently the only commercial supplier of UO_2 for use in Canadian Candu heavy water reactors with sales to its largest customer, Ontario Power Generation (OPG), accounting for approximately 39% of the company's UO_2 sales in 2005. For 2005, one customer of Cameco's uranium and conversion services amounted to \$135 million or 16% of our combined revenue from those businesses.

We have worked hard to build long-term, trusting relationships with our customers. In addition, Cameco continues to implement a strategy that focuses on achieving longer contract terms. Today, new contracts tend to reflect delivery terms up to 10 years or more. Our current contract portfolio for uranium and conversion services has contract terms averaging about seven years. Cameco has never had a customer default while it was under contract to purchase uranium or conversion services.

While there are a small number of buyers for uranium and conversion services, there are also a small number of suppliers. As such, customers have limited opportunity to exclude the major producers from their contracting activities.

In 2004, the most recent data available by producer, world production was 105 million pounds U_3O_8 . Eight producers including Cameco provided more than 80% of this production. World production for 2005 is estimated at 108 million pounds, up 3% from 2004, largely as a result of incremental increases in production at existing mines. Cameco accounted for 20% of world production in 2005.

There are four significant producers of UF_6 conversion services in the western world. Cameco controls almost 40% of the production capacity.

Zircatec

Sales to Bruce Power represent almost all of Zircatec's sales. There are two suppliers of Candu fuel bundles and Cameco owns one of them. The capacity of the two producers currently exceeds demand but neither producer alone can supply all of the demand. As such, the buyers have a vested interest in ensuring both fuel suppliers remain in business.

Bruce Power

BPLP also relies on some major customers for its electricity sales. During 2005, electricity revenue from one customer of BPLP represented about 11% of BPLP's total revenue.

In Ontario, during periods of peak demand there is a shortage of electrical generation capacity and BPLP is well positioned as a baseload supplier and has the capacity to supply about 17% of Ontario's electricity.

RESERVE ESTIMATES

Our uranium reserves are the foundation of the company and fundamental to our success. Uranium reserves and resources are estimated on a number of variables and assumptions, including geological interpretation, commodity prices and operating and capital costs. If our reserves or resource estimates are inaccurate or reduced in the future, it could have an adverse impact on our future cash flows and earnings. For example, if there are fewer reserves at any site, our future earnings would decrease from reduced sales and higher depreciation costs. Depreciation of mine assets is generally calculated over the mine life. A decrease in actual reserves could decrease the mine life, which would result in increased depreciation expenses over the same period of time.

The mine life at McArthur River is not at risk as it has more than 20 years of reserves at the current production level. At Rabbit Lake, the current reserves sustain mill production until 2007. We are seeking to extend the mine life by conducting exploration drilling near the mine and have been successful in the past. At the Kumtor gold mine, the mine life has been extended by almost three years to 2013. The Boroo gold mine life has been extended by one year to 2011.

Cigar Lake is scheduled to come into production in 2007. After a ramp-up period of up to three years, Cigar Lake is expected to produce 18 million pounds U_3O_8 annually. At the end of 2005, Cigar Lake had 231.5 million pounds of proven and probable reserves. Cameco's share of production and reserves is 50%.

Inkai is expected to start commercial production in 2007. We expect Inkai to ramp-up to full production of 5.2 million

pounds U₃O₈ per year by 2010. At the end of 2005, Inkai had 114.4 million pounds of proven and probable reserves. Cameco's share of production and reserves is 60%.

We have had two reserve reclassifications at McArthur River in 2003 and 2005. As discussed in the "Uranium Business" section of this MD&A, we are considering using the boxhole boring mining method rather than raise boring in upper zone #4 because it will allow development from a preferred location. Until Cameco has fully developed and tested the boxhole boring method, there is uncertainty in the estimated productivity. As a result, Cameco reclassified 108.2 million pounds U₃O₈ from proven to probable reserves at McArthur River (Cameco's share is 75 million pounds) in 2005. Cameco does not expect this change to significantly impact its long-term production plans. Production from this zone is scheduled to begin in 2012.

In addition, the revisions to the proposed mining plan for the upper zone #4 and re-interpretation of a small portion of zone #2 resulted in a decrease of 12.9 million pounds U₃O₈ (Cameco's share is 9 million pounds) in proven reserves at McArthur River in 2005.

In 2003, we reclassified 51.8 million pounds U₃O₈ of proven to probable reserves at McArthur River (Cameco's share is 36 million pounds). Cameco decided to review the reserves classification because of the uncertainty associated with the productivity of using other mining methods at McArthur River. We were considering, on a conceptual basis, using jet boring and boxhole boring mining methods. We have tested jet boring at Cigar Lake and boxhole boring at Rabbit Lake and Cigar Lake with successful results. Jet boring and boxhole boring have not been tested locally at McArthur River and for that reason the reserves were reclassified from proven to probable.

Reserve estimates are based on our knowledge, mining experience and analysis of drilling results. We estimate reserves and disclose them in a manner that conforms to industry practices and applicable regulations including National Instrument 43-101.

While we believe the reserve and resource estimates included are well established and reflect management's best estimates, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon geological and statistical inferences which may ultimately prove inaccurate.

LABOUR RELATIONS

Cameco has unionized employees at its McArthur River mine, Key Lake mill and Port Hope conversion and fuel manufacturing facilities. The collective agreement for unionized employees at McArthur River and Key Lake expired

on December 31, 2005. Cameco and union representatives are currently negotiating a new long-term agreement. The collective agreement covering unionized employees at the Port Hope conversion facility was ratified after a seven-week strike in 2004 and will expire on June 30, 2007. This strike resulted in a significant loss of planned UF₆ and UO₂ production. The collective agreement covering the unionized employees at Zircatec expires on June 1, 2007.

BPLP has 3,700 employees and most of them are unionized. The Power Workers' Union's collective agreement expires December 31, 2006. The Society of Energy Professionals' collective agreement, which began January 1, 2005, expires December 31, 2009. Under the 2005 restructuring agreements, all employees remain with BPLP and all employee costs are apportioned between BPLP and BALP.

The Kumtor mine is unionized and all of Centerra's national employees in the Kyrgyz Republic are subject to a collective agreement between the Kumtor Operating Company (KOC) and the Trade Union Committee. Centerra's labour relations to date have been generally good and there have been no work stoppages due to labour disputes. However, the Trade Union Committee has recently demanded substantial additional compensation and alleged violations of labour legislation by KOC. KOC does not believe that the Trade Union Committee's position has merit. However, KOC is in discussions with the Trade Union Committee with a view to resolving the outstanding issues amicably. The collective agreement expires at the end of 2006.

We cannot predict at this time whether we will be able to reach new collective agreements with our unionized employees without a work stoppage. Any lengthy work disruptions could affect our earnings adversely.

COUNTERPARTY RISK

Cameco's sales of uranium, conversion and fuel manufacturing services expose the company to the risk of non-payment. We manage this risk by monitoring the credit worthiness of our customers and seeking pre-payment or other forms of payment security from customers with an unacceptable level of credit risk. As of December 31, 2005, about 4% of Cameco's forecast revenue under uranium and conversion services contracts, for the period 2006 to 2008, is with customers whose creditworthiness does not meet Cameco's standards for unsecured payment terms. As well, Cameco's purchase of uranium product and conversion services, such as under the Russian HEU commercial agreement and Springfields toll-conversion agreement, exposes the company to the risk of the supplier's failure to fulfill its delivery commitment.

MARKET RISKS

PRODUCT PRICES

As a significant producer and supplier of uranium, nuclear fuel processing, gold and electricity, Cameco bears significant exposure to changes in prices for these products. A substantial downturn in prices will negatively affect the company's net earnings and operating cash flows. Prices for our products are volatile and are influenced by numerous factors beyond the company's control, such as supply and demand fundamentals, geopolitical events and, in the case of electricity prices, weather.

Uranium

Uranium spot prices have mostly been in a downturn since the company was formed in 1988. Beginning mid-2003, the uranium price increased rapidly, primarily as a result of market participants recognizing that secondary supplies would contribute less to future supply than anticipated. The following graph shows the month-end uranium spot prices since 1988 in current (i.e. non-inflation adjusted) dollars.

Deliveries under new contracts typically do not begin for up to four years. As a result, many of the contracts in our current portfolio reflect market conditions when uranium prices were significantly lower. Cameco's current contract portfolio has limited sensitivity to further increases in the spot price over the next three years. For information on Cameco's sensitivity to spot prices, see "Uranium Price Sensitivity 2006" and "Uranium Price Sensitivity Analysis 2006 to 2008" in this MD&A.

Our strategy for reducing our exposure to volatility in uranium prices is to maintain a long-term contract portfolio that is diversified by price mechanism and delivery date. About 60% of Cameco's contract portfolio has been priced in relation to a market price (spot or long-term) mechanism. Currently, we have been securing attractive floor prices, which provide significant downside protection in the

future. The remaining 40% has been sold at a fixed price (usually adjusted for inflation) over the term of the contract. Today, new contracts tend to reflect contract terms of up to 10 years or more. For more information on uranium contracting, see "Uranium Strategies" in this MD&A.

Conversion Services

The majority of our conversion sales are at fixed prices with inflation escalators. In the short term, Cameco's financial results are relatively insensitive to changes in the spot price for conversion. The newer fixed-price contracts generally reflect longer-term prices at the time of contract award. Therefore, in the coming years, our contract portfolio will be positively impacted by higher fixed-price contracts.

Bruce Power

Similarly, Bruce Power reduces price volatility by committing sales under fixed-price contracts. BPLP has 13 TWh sold under fixed-price contracts for 2006. This would represent about 50% of Bruce B's generation at its planned capacity factor. A \$1.00 per MWh change in the spot price for electricity in Ontario would change Cameco's after-tax earnings from BPLP by about \$3 million.

In addition, the Bruce Power restructuring agreement provides for a floor price of \$45.00 per MWh (escalated by inflation) for the electricity sold into the spot market. The floor price extends to 2019. The floor price has a true-up mechanism, which is settled on a monthly basis with a contingent support payment. The aggregate of contingent support payments is tracked, so that if in the following year(s), the market price exceeds the floor price, Bruce Power would have to pay back the difference between the market and floor price, up to a value not exceeding the current contingent support payment balance. If a repayment is made, this amount is then subtracted from the contingent support payment balance.

Gold

Centerra is totally exposed to the fluctuations in the spot market for gold. Centerra plans to leave its gold production unhedged due to the strong industry fundamentals which it expects to continue to put upward pressure on price.

The average spot price for gold increased to \$445 per ounce in 2005 compared to \$409 per ounce in 2004. For 2006, a \$25.00 (US) per ounce change in the gold spot price would change Cameco revenue by about \$21 million (Cdn), cash flow by about \$20 million (Cdn) and net earnings by about \$9 million (Cdn).

Uranium Spot Price 1988 – 2005



Since Cameco's inception, the average uranium spot price between 1988 and 2003 was \$10.58 US/lb U₃O₈. Only recently have uranium prices strengthened.

FOREIGN EXCHANGE RISK

Cameco sells most of its uranium and conversion services in US dollars while most of its uranium and conversion services are produced in Canada. As such, these revenues are denominated mostly in US dollars, while production costs are denominated primarily in Canadian dollars. As a result, Cameco's earnings are negatively affected by a strengthening Canadian dollar. During 2005, the Canadian dollar strengthened against the US dollar from \$1.20 at December 31, 2004 to \$1.17 at December 31, 2005.

We attempt to provide some protection against exchange rate fluctuations by planned currency hedging activity designed to smooth volatility. Therefore, our uranium and conversion revenues are partly sheltered against increases in the Canadian dollar in the shorter term. In addition, Cameco has a portion of its annual cash outlays denominated in US dollars, including uranium and conversion services purchases, which provide a natural hedge against US currency fluctuations. While natural hedges provide this protection, the influence on earnings from purchased material in inventory is likely to be dispersed over several fiscal periods and is more difficult to identify.

For more information on our foreign currency hedging program, see the "Foreign Exchange" section under "Uranium Business" in this MD&A.

Our foreign currency hedging program in 2005 provided an incremental \$62 million in Canadian dollar revenue. After deducting carrying charges and income taxes, this resulted in an additional \$31 million of net earnings.

For 2006, every one-cent change in the US to Canadian dollar exchange rate would change net earnings by about \$4 million (Cdn).

POLITICAL RISKS

POLITICAL INSTABILITY RISK

Cameco's Inkai project is located in the Republic of Kazakhstan. All of Centerra's current gold production and reserves are derived from assets located in the Kyrgyz Republic and Mongolia. All three countries are developing countries that have experienced political and economic difficulties in recent years. Cameco's operations and assets are subject to potential risks from actions by governmental authorities or internal unrest.

Losses due to political instability could have an adverse impact on Cameco's future cash flows, earnings, results of operations and financial condition. The company has made an assessment of the political risk associated with each of its foreign investments and has purchased political risk insurance to partially mitigate losses.

In looking at political risk in the Kyrgyz Republic, Mongolia and the Republic of Kazakhstan, we have made reference to

the Index of Economic Freedom. The Heritage Foundation, a US research and educational institute, in partnership with the Wall Street Journal, publishes the Index of Economic Freedom. The report is an in-depth analysis of 50 independent variables that contribute most directly to economic freedom and prosperity. The index measures factors such as corruption, trade barriers, fiscal burden of governments, rule of law and health, safety, environment and labour regulations in 161 countries. Cameco believes this analysis helps to quantify political risk in developing countries.

Kyrgyz Republic

The 2006 Index of Economic Freedom categorizes the Kyrgyz Republic as "Mostly Free," with a rank of 71 out of 161 surveyed countries. The Kyrgyz Republic has opened most of its economy to foreign investment and has adopted guarantees, consistent with international standards, against expropriation or nationalization.

To mitigate risk, when Cameco restructured its gold assets into Centerra, Kyrgyzaltyn, a Kyrgyz joint stock company whose shares are 100% owned by the government of the Kyrgyz Republic, agreed to retain an ownership interest and, today, owns about 16% of Centerra. The president of Kyrgyzaltyn is currently a member of Centerra's board of directors. The agreement also provides that Kyrgyzaltyn will maintain ownership of at least 5% of the outstanding common shares at the time the Kumtor restructuring closed, as long as the Kyrgyz government continues to control Kyrgyzaltyn.

In 2005, the Kyrgyz Republic went through a major change in its political life. On February 28, 2005, the 105 member two-chamber parliament ceased to exist and was replaced by a one-chamber parliament with 75 seats. The new one-chamber parliament has broader constitutional powers, with certain powers being relinquished to it by the president. These changes were made pursuant to constitutional referendums which were conducted in 2003.

There was political unrest in the lead-up to the new parliamentary elections, which were held on February 27, 2005. As a result, from February 22 to 26, 2005, the Kumtor mine was unable to move employees and supplies to and from the minesite due to roadblocks on public highways. The roadblocks ceased on February 27, 2005 and normal operations resumed on March 2, 2005, with production unaffected.

The parliamentary elections precipitated additional unrest, and on March 24, 2005, President Askar Akaev, who had first been elected to that position in 1990, resigned under allegations of election fraud. The newly elected parliament designated Mr. Kurmanbeck Bakiyev as the acting president. Subsequently, on July 10, 2005, Mr. Bakiyev won a presidential election and was inaugurated as the president

of the Kyrgyz Republic for a five-year term. Mr. Felix Kulov has been appointed the prime minister.

Following the ouster of President Akaev, the new government began various investigations into the activities of the prior government and former President Akaev's assets. Centerra's wholly-owned Kyrgyz subsidiary, Kumtor Gold Company (KGC), was included in the list of assets subject to inquiry by a special commission formed for this purpose on April 18, 2005. The commission published a report in June 2005 on its findings that did not contain any allegations against Centerra or its subsidiaries.

The State Audit Chamber of the Kyrgyz Republic was asked by the previous parliament to provide clarification to it with respect to the Kumtor restructuring in 2004. In April 2005, KGC was requested to provide information with respect to the restructuring. KGC agreed to assist the Chamber in its review. Subsequently, in June 2005, the attorney general's office requested documents from the KOC and Centerra as part of a criminal investigation into the alleged abuses of power or authority by officers of the Kyrgyz government, Kyrgyzaltyn, KGC and KOC. The investigation was based on previous parliamentary resolutions opposing and challenging the Kumtor agreements and the legality of the restructuring. Centerra responded co-operatively to these requests. Centerra stated publicly that it was not aware of any basis for allegations of criminal conduct, and noted that the Kumtor restructuring had been approved by government decree and was supported by legal opinions of the Ministry of Justice on the authority of the government to enter into and complete the restructuring.

None of these inquiries and investigations have resulted in any material negative effect on Kumtor, and to Centerra's knowledge, are inactive or are currently not being pursued by the Kyrgyz authorities. President Bakiyev and Prime Minister Kulov have also stated on several occasions that the Kyrgyz Republic will honour its agreements with Kumtor and Centerra. Nonetheless, as the largest foreign investment enterprise in the Kyrgyz Republic, the Kumtor project continues to be the subject of political debate.

Although the election of Mr. Bakiyev as president and the appointment of Mr. Kulov as prime minister brought a measure of stability to the Kyrgyz Republic following the events of March 2005, the political situation in the country continues to evolve. There continues to be a risk of future political instability.

In July 2005, protesters, in an action related to the 1998 cyanide spill, illegally blocked access to the Kumtor mine alleging, among other things, a lack of compensation from the Kyrgyz government. In response to the roadblock the government created a State Committee to inquire into various aspects of the Kumtor operations and the consequences of the spill. Based on the inquiries of the State

Committee, the government issued a decree in September, 2005, requesting, among other things, that certain government agencies enter into negotiations with KOC and ask that KOC provide new funds to compensate local residents. Throughout these negotiations KGC's position continued to be that the settlement agreement was a final settlement of all claims and that any new compensation was the responsibility of the government.

On November 14, 2005 there was a further illegal roadblock by protesters that blocked access to the mine. This roadblock was lifted on November 21, 2005 after further negotiations among the protesters, the government and KGC. As a result of these negotiations, the government acknowledged its responsibility for any new compensation relating to the spill. To assist the government in fulfilling its responsibilities, KGC agreed in principle to make interest-free advances of approximately \$4 million (US) to the government.

In December, 2005, Centerra advanced \$1 million (US) of this amount to the Issyk-Kul Social Fund. This money was distributed to members of the local communities by a committee created by the government to administer the distribution of compensation. This advance will be repaid from regular ongoing contributions made by KGC to the Issyk-Kul Social Fund pursuant to the Investment Agreement. KGC has proposed terms for further advances and their repayment and expects to reach agreement with the government in the near future. However, if the government and KGC are unable to come to an agreement with respect to further advances to fund compensation, there is a substantial risk of further protests and roadblocks.

Mongolia

The 2006 Index of Economic Freedom categorizes Mongolia as "Mostly Free," with a rank of 60 out of 161 surveyed countries. According to the International Monetary Fund, in Mongolia "the Law on Foreign Investment guarantees that foreign investors will not be nationalized and that foreign investors will have the right to dispose of their assets."

In 2000, the Mongolian People's Revolutionary Party ("MPRP") won a strong majority in the Mongolian legislature. It continued many of the reform policies and focused on social welfare and public order priorities. In the June 2004 election the MPRP lost its majority but regained it in January 2005 when several members of the coalition government joined the MPRP to form a coalition cabinet. Presidential elections were held in May 2005, and Mr. Enkhbayar from the MPRP was elected in the first round of voting. In late 2005, the coalition cabinet dissolved, and in early 2006, the government was reformed and is now dominated by members of the MPRP.

Mongolian minerals legislation is principally governed by the Minerals Law of Mongolia (the "Minerals Law"), which

was enacted in 1997. The Minerals Law provisions apply to activities and relationships with respect to the exploration for and mining of all types of mineral resources other than water, petroleum and natural gas, although there are other legislative enactments that apply to minerals. In mid-2005, the government was considering proposals to amend the Minerals Law. These proposals had the potential to affect negatively the investment climate for the mining industry, especially foreign investors. The proposals principal effect would have been on new projects rather than existing projects, such as Centerra's Boroo project. It is not clear whether the newly formed government will proceed with any or all of these proposals, and if the government does proceed, whether they will have a negative effect on the Boroo or Gatsuurt projects.

The foreign investment climate in Mongolia and Kyrgyz Republic appear to be gradually improving, however to partially mitigate losses, Centerra continues to purchase political risk insurance.

Republic of Kazakhstan

According to the 2006 Index of Economic Freedom, Kazakhstan is categorized as "Mostly Unfree", with a rank of 113 out of 161 countries surveyed. The index also noted that Kazakhstan was among the 10 most improved countries. To mitigate risk at our Inkai project, we formed a strategic alliance, through a joint venture, with KazAtomProm, a state-owned entity of the Republic of Kazakhstan. Cameco has agreed to provide funding of up to \$100 million (US) to the Joint Venture Inkai for project development. We have also agreed to invest at least \$4 million (US) over the next four years on sustainable development activities. To date, the Kazakhstan government has supported the project. In the event of a dispute arising at our foreign operations at Inkai, the dispute will be submitted to international arbitration. Cameco also continues to purchase political risk insurance to partially mitigate losses.

Cameco and Centerra practise the principles of sustainable development – to be a leader in business ethics, workplace safety, environmental protection and community economic development. As a result, we believe our commitment to sustainable development will further enhance our goal of becoming a partner of choice for governments and state-owned enterprises where we operate.

RESTRUCTURING OF ONTARIO'S ELECTRICITY INDUSTRY

Through Cameco's investment in BPLP, we are exposed to various business risks associated with the generation and marketing of electricity. In Ontario, political risk results from uncertainty over the future direction of government energy policies. BPLP sells electricity into the wholesale spot market and the contract market.

In Ontario, the retail and wholesale power markets were deregulated in May 2002. Due to a number of factors, including weather, electricity spot prices climbed to an average of \$83.00 per MWh in September 2002 compared to an average price before deregulation of about \$38.00 per MWh. In response, the Ontario government abandoned the deregulation of the retail electricity market and froze retail market prices at \$43.00 per MWh for smaller consumers. In April 2004, a new pricing plan was implemented which fixed the first 750 kWh of consumption at \$47.00 per MWh and monthly consumption above that level at \$55.00 per MWh. More recently, the government has moved to gradually introduce the "true cost" of electricity into the retail market using an annual adjustment mechanism.

To mitigate price increases, the government has caused its provincially owned utility OPG to provide fixed rates for large industrial electricity users to allow them a transition to a market rate.

In 2005, the government set an average price of \$45.00 per MWh on the output of OPG's regulated assets, which include OPG's baseload nuclear and large hydro plants. The new prices took effect on April 1, 2005 and will stay in place until the Ontario Energy Board sets new prices, no earlier than March 31, 2008. The government also set a new price limit of \$47.00 per MWh on most of the output from OPG's unregulated assets, which include 85% of OPG's coal fired and smaller hydro operations that are not included in its regulated assets. The price limit was to act as a transitional measure from April 1, 2005 to April 30, 2006.

In February 2006, the Ontario government extended the transition rate for OPG's unregulated assets for three years (2006 to 2008). The rate per MWh will be \$46.00, \$47.00 and \$48.00 in each of the three years. Bruce Power expects this action may depress the wholesale contract market, which remains unregulated. BPLP sells all of its production into the wholesale contract and spot markets. Given the constant struggle between encouraging new supplies of electricity and providing low electricity costs to users, uncertainty for Ontario electricity generators continues.

BPLP engages in risk management activities, including trading of electricity and related contracts to mitigate these risks. BPLP receives a reliable stream of revenue from fixed-price contracts. Approximately 48% of BPLP's output was sold under fixed-price contracts in 2005. BPLP also sells electricity on the open spot market. Prices are determined by bids from suppliers and buyers that reflect changes in supply and demand by the hour. In addition, the Bruce Power restructuring agreement provides for a floor price of \$45.00 per MWh (escalated by inflation) for the electricity sold by the Bruce B reactors into the spot market.

There is a risk that the Ontario government could regulate the wholesale market in the future. This would limit the upside potential for BPLP's revenue. Given the shortage of generating capacity in Ontario, the need to attract new investment and recent market structure changes made by the government, we believe the risk that the wholesale market will be regulated is low. Ontario imported 11 TWh in 2005, up from the previous year when imports totalled 9.7 TWh. The IESO is responsible for managing Ontario's bulk electricity system and operating the wholesale electricity market.

Ontario's demand for electricity continued to increase in 2005. Ontarians consumed a total of 157 TWh, an increase of just over 2% from 2004. This is partly due to increased load from air conditioners during the hot summer.

In February 2006, the IESO issued its first Ontario Reliability Outlook, which reports on progress of the inter-related generation, transmission and demand projects under way to meet future reliability needs of the province. The IESO noted that, "aging generating units, constraints on the transmission system, under investment in the past decade, the continued growth in demand, and the provincial government's coal replacement plan are factors contributing to the need for new facilities and increased demand response."

OPERATIONAL RISKS

OVERVIEW

Cameco's businesses are subject to a number of operational risks and hazards, including environmental pollution, accidents or spills; industrial and transportation accidents; fires; blockades or other acts of social or political activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena; encountering unusual or unexpected geological conditions; and technological failure of mining methods.

We also contract for the transport of our uranium and uranium products to refining, conversion, fuel manufacturing, enrichment facilities and nuclear facilities in North America and Europe, as well as processing facilities in Kazakhstan, which exposes the company to transportation risks. The potential risk is damage to the environment from a transportation incident, which results in a spill of product. We may be held liable as owner of the product. This could damage our reputation, which could make it more difficult to ship our products.

Although we maintain insurance to cover some of these risks and hazards in amounts we believe to be reasonable, this insurance may not provide adequate coverage in all circumstances.

ENGINEERING AND TECHNICAL

Water Inflow

Due to the unique geological conditions of the deposits at McArthur River and Cigar Lake, some technical challenges exist, including the potential inflow of water into a mine. In April 2003, a water inflow into the McArthur mine suspended mining for nearly three months. Similar difficulties could result in lower uranium production levels. Our sales were not impacted as we made deliveries from inventory and purchased uranium. The impact to net earnings was an increase in costs of \$24 million to rehabilitate the mine. As a result of the water inflow, we significantly increased our pumping and water treatment capacity which resulted in increased expenditures of almost \$19 million.

Cameco has operational controls in place to reduce this uninsurable risk including detailed procedural training for all employees, equipment inspections and testing, weekly inspections by our engineers, quarterly third-party inspections by engineering consultants and, in the Cigar Lake mine design, the incorporation of watertight bulkheads.

Jet Boring Mining Method

At Cigar Lake, the major technical factors influencing the mining method selection include ground stability, control of groundwater, radiation exposure, and ore handling and storage. Various studies on ground conditioning and non-entry mining methods were conducted. A decade-long test mine program resulted in the selection and validation of the jet boring mining method.

The overall test mine program was considered successful with all initial objectives fulfilled. However, as the jet boring mining method is new to the uranium mining industry, the potential for unforeseeable technical challenges exist. We are confident that our engineers will be able to solve the challenges that may arise during the initial ramp-up period, but failure to do so would have a significant impact on Cameco. We could experience a delay in production startup, which would result in the delay of sales and revenue. Costs would likely rise as we examined solutions to deal with the technical challenges. Given that we cannot foresee what these solutions might be, we cannot predict the costs at this time.

Boxhole Boring Mining Method

We are testing the effectiveness of using the boxhole boring method at McArthur River to mine parts of the orebody. While we have confidence our engineers will be able to successfully test this mining method, failure to do so could significantly impact the company. We could see a decrease in production, which would result in a loss of sales and revenue.

Kumtor Highwall Ground Movement

The current pit design is a response to the pit wall failure in 2002 at the Kumtor mine, also referred to as the “highwall ground movement,” which resulted in the temporary suspension of operations. While some ground movement is common, this was a significant and unexpected movement, which affected the pit wall over a vertical distance of 280 metres and caused one fatality. Although mine production resumed seven days later in an area away from the pit wall failure, the highwall ground movement led to a considerable shortfall in 2002 gold production because a high-grade zone was rendered temporarily inaccessible to mining. As of December 31, 2004, the entire area affected by the highwall ground movement had been mined out.

Following the highwall ground movement, Centerra’s geotechnical consultant assessed the potential explanations for the pit wall failure and provided guidance with respect to remedial and long-term pit shape design criteria that would reduce the possibility of a recurrence. A detailed surface mapping program and geotechnical drilling program was designed and initiated to provide further information on the cause of the highwall ground movement. Evaluation of the data resulting from the additional investigation programs has led to a revision of the geological model in the area of the northeast wall and reformulated slope design criteria for the final pit. The integration of the revised geology into the slope design process has allowed Centerra to develop a revised mining plan based on the geotechnical consultant’s recommendations, which provides for greater pit wall stability.

In February 2004, some movement in the southeast wall of the Kumtor open pit was detected by the monitoring system. A crack was also discovered at the crest of the wall. The affected area of the southeast wall extends over a face length of about 300 metres and a wall height of about 200 metres. This area has now been mined out. In February 2006, additional minor movement was detected. Remedial recommendations of Centerra’s geotechnical consultants have been implemented. Kumtor will continue to closely monitor the southeast wall.

RECLAMATION AND DECOMMISSIONING

The company plans for the closure, reclamation and decommissioning of its operating sites. Decommissioning and reclamation costs may increase over time due to increasingly stringent regulatory requirements.

Periodically, Cameco re-estimates its total decommissioning and reclamation costs, based on current operations to date, for its operating assets. At the end of 2005, the total estimate was \$239 million, which is the undiscounted value of the obligation. Most of these expenditures are typically incurred at the end of the useful lives of the operations to which they

relate and, therefore, only a very small percentage of total estimated decommissioning and reclamation costs are expected to be incurred over the next five years. See note 7 to the consolidated financial statements.

At the end of 2005, Cameco’s accounting provision for future reclamation costs totalled \$168 million, which represents the present value of the \$239 million mentioned above. To provide financial assurances for these costs, Cameco has provided letters of credit, where required. Cameco’s LOCs totalled \$207 million at the end of 2005, of which \$203 million was related to reclamation and decommissioning activities.

Since 2001, all Cameco’s North American operations have in place LOCs providing financial assurance, which are aligned with preliminary plans for site-wide decommissioning. Beginning in 1996, the company has conducted regulatory-required reviews of its decommissioning plans for all Canadian sites. These periodic reviews are done on a five-year basis, or at the time of an amendment to or renewal of an operating licence.

As part of the upcoming licence renewals for our Port Hope and Blind River operations, we will be reassessing our decommissioning estimates. This could result in the need for additional LOCs to cover the new estimates in 2006 or 2007.

SAFETY, HEALTH AND ENVIRONMENT

Cameco is subject to the normal worker health, safety and environmental risks associated with all mining and chemical processing. In addition, our workforce faces other risks associated with radiation related to uranium mining and milling, and fuel services operations.

Over the last few years Cameco has been implementing a QMS that recently also integrates our environmental management and health and safety management systems. The environmental management system for Cameco’s uranium facilities at McArthur River, Key Lake, Blind River, Port Hope and Crow Butte are each ISO 14001 certified. The Smith Ranch-Highland mine in Wyoming and the Inkai test mine in Kazakhstan are in the process of obtaining ISO 14001 certification.

Monitoring and reporting programs for environmental, health and safety performance in all our operations are in place, to ensure that environmental and regulatory standards are met. For 2005, we invested about \$20 million for environmental monitoring, protection, assessment and safety and health programs. Inspections and assessments are also designed to provide these assurances. Contingency plans are in place for a timely response to an environmental event.

ELECTRICITY BUSINESS

The capacity factor is directly related to the operating performance of Bruce Power's generating assets. The capacity factor for a given period represents the amount of electricity actually produced for sale as a percentage of the amount of electricity the plants are capable of producing for sale. Bruce Power's anticipated contribution to Cameco's financial results in a given year could be significantly impacted if the aggregate capacity factor is less than expected due to planned outages extending significantly beyond their scheduled periods or if there are unplanned outages for an extended period of time. The impact of lower capacity factor is reduced electricity sales and revenue.

For example, in 2005 we expected Bruce Power's average capacity factor for all six units to be 85% compared to the 80% that was ultimately achieved. This reduction in capacity factor is equivalent to about 2 TWh, which is additional output that could have been sold by Bruce Power. On the other hand, if there is reduced generation capacity available to the market, that will typically cause electricity prices to rise, which can partially offset the loss in sales volume.

Bruce Power manages this risk through preventive maintenance to improve overall equipment reliability, by adopting more efficient operational processes and by improving employee performance at all levels. In 2006, BPLP plans to invest \$69 million in sustaining capital.

disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. Management believes the following critical accounting estimates reflect its more significant judgments used in the preparation of the consolidated financial statements.

Depreciation and depletion on property, plant and equipment is primarily calculated using the unit of production method. This method allocates the cost of an asset to each period based on current period production as a portion of total lifetime production or a portion of estimated recoverable ore reserves. Estimates of lifetime production and amounts of recoverable reserves are subject to judgment and significant change over time. If actual reserves prove to be significantly different than the estimates, there could be a material impact on the amounts of depreciation and depletion charged to earnings.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of the productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves may result in a material change in the amount charged to earnings. Cameco accounts for its obligations associated with the retirement of tangible long-lived assets in accordance with CICA Handbook Section 3110, Asset Retirement Obligations.

Cameco assesses the carrying values of property, plant and equipment, and goodwill annually or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets or goodwill cannot be recovered, the unrecoverable amounts are written off against current earnings. Recoverability is dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable ore reserves. A material change in assumptions may significantly impact the potential impairment of these assets.

Cameco uses derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. As long as these instruments are effective, they have the effect of offsetting future changes in these underlying rates and prices. Future earnings may be adversely impacted should these instruments become ineffective.

Cameco operates in a number of tax jurisdictions and is therefore required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. In calculating the income taxes, consideration is

5 Disclosure Controls and Procedures

As of December 31, 2005, we evaluated our disclosure controls and procedures as defined in the rules under the US Securities and Exchange Commission and the Canadian Securities Administrators. This evaluation was carried out under the supervision and participation of management, including the president and chief executive officer and the chief financial officer. Based on that evaluation, the president and chief executive officer and chief financial officer concluded that the design and operation of these disclosure controls and procedures were effective. No changes were made in our internal control over financial reporting during the year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

6 Critical Accounting Estimates

Cameco prepares its consolidated financial statements in accordance with Canadian GAAP. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the

given to factors such as tax rates in the different jurisdictions, non-deductible expenses, valuation allowances, changes in tax laws and management's expectations of future results. Cameco estimates future income taxes based on temporary differences between the income and losses reported in its consolidated financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effect of these temporary differences is recorded as future tax assets or liabilities in the consolidated financial statements. The calculation of income taxes requires the use of judgment and estimates. If these judgments and estimates prove to be inaccurate, future earnings may be materially impacted.

5 Caution Regarding Forward-Looking Information

Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Factors that could cause such differences, without limiting the generality of the foregoing, include: volatility and sensitivity to market prices for uranium, gold, conversion services and electricity in Ontario; the impact of the change in sales volume of uranium, conversion and fuel manufacturing services, electricity generated by BPLP, and gold produced by Centerra Gold Inc.; the financial results and operations of BPLP and Centerra Gold Inc.; competition; the impact of change in foreign currency exchange rates and interest rates; imprecision in production, reserve, decommissioning, reclamation and tax estimates; adverse mining conditions; unexpected geological or hydrological conditions; operating performance (including any disruption thereto) and life of the company's and customers' facilities; reduction in

electricity generated due to unplanned outages or planned outages that extend beyond the scheduled period at BPLP's facilities; environmental and safety risks including increased regulatory burdens and long-term hazardous waste disposal; risks associated with the transport of uranium and chemicals and fuel used in the production process; political risks arising from operating in certain developing countries; terrorism; sabotage; a possible deterioration in political support for nuclear energy; changes in government regulations and policies, including nuclear energy, environmental, tax and trade laws and policies; demand for nuclear power; failure to replace production; failure to obtain and maintain necessary permits and approvals from government authorities; legislative and regulatory initiatives regarding deregulation, re-regulation or restructuring of the electric utility industry in Ontario; Ontario electricity rate regulations; natural phenomena including inclement weather conditions, fire, flood, underground floods, earthquakes, pit wall failures and cave ins; ability to maintain and improve positive labour relations; strikes or lockouts; success of planned development projects; and other development and operating risks.

Although Cameco believes the assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this report. Cameco disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as otherwise required by applicable law.

6 Additional Information

Additional information related to the company including Cameco's annual information form is available at sedar.com and cameco.com.





Note Regarding Reserves and Resources

Reserves and resources reported herein have been estimated as at December 31, 2005 in accordance with definitions adopted by the Canadian Institute of Mining, Metallurgy and Petroleum and incorporated into National Instrument 43-101 (see definitions below). Estimates of uranium reserves and resources were prepared by or under the supervision of the qualified persons identified at "Uranium Reserves and Resources." Estimates of gold reserves and resources were prepared by or under supervision of the qualified person identified at "Gold Reserves and Resources." The amount of reported resources does not include those amounts identified as reserves.

Cameco reports its reserves and resources in accordance with National Instrument 43-101, as required by Canadian securities regulatory authorities. For United States reporting purposes, Industry Guide 7 under the Securities Exchange Act of 1934 (as interpreted by the staff of the US Securities and Exchange Commission) applies different standards in order to classify mineralization as a reserve. Accordingly, for US reporting purposes, as at December 31, 2005, the mineralization at the Ruth uranium in situ leach project in Wyoming is classified as mineralized material. In addition, for US reporting purposes, all mineral resources must be considered as mineralized material.

For the purpose of estimating uranium reserves in accordance with National Instrument 43-101 of the Canadian securities regulatory authorities, a uranium price of \$22.70 (US) was used. For the purpose of estimating reserves in accordance with United States Securities and Exchange Commission's Industry Guide 7 for US reporting purposes, a uranium price of \$19.60 (US) was used. Estimated uranium reserves are the same using either uranium price, except for the Ruth uranium in situ leach project in Wyoming which, for US reporting purposes, is classified as mineralized material.

For the purpose of estimating gold reserves in accordance with National Instrument 43-101 of the Canadian securities regulatory authorities and in accordance with United States Securities and Exchange Commission's Industry Guide 7 for US reporting purposes, reserves were calculated with cut-off grades based on a gold price of \$400 (US) per ounce.

Mineral resources are not mineral reserves and do not have demonstrated economic viability, but do have reasonable prospects for economic extraction. Measured and indicated mineral resources are sufficiently well defined to allow geological and grade continuity to be reasonably assumed and permit the application of technical and economic parameters in assessing the economic viability of the resources. Inferred resources are estimated on limited information not sufficient to verify geological and grade continuity or to allow technical and economic parameters to be applied. Inferred resources are too speculative geologically to have economic considerations applied to enable them to be categorized as mineral reserves. There is no certainty that mineral resources will be upgraded to mineral reserves through continued exploration.

Although the company has carefully prepared and verified the mineral reserve figures presented in this annual report, such figures are estimates, which are, in part, based on forward-looking information, and no assurance can be given that the indicated levels of uranium and gold will be produced. See "Risk Factors" and "Note Regarding Forward-Looking Statements" in Cameco's annual information form available at cameco.com and sedar.com.

Definitions

A mineral resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade including base and precious metals, coal and industrial materials, or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories.

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

A measured mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

A mineral reserve is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are subdivided in order of increasing confidence into probable mineral reserves and proven mineral reserves.

A probable mineral reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

A proven mineral reserve is the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Uranium Reserves and Resources

The disclosure in this annual report of scientific and technical information regarding Cameco's uranium properties, including reserve and resource estimates and the description of the geology, were prepared by or under the supervision of the following qualified persons:

Qualified Persons

Alain Gaston Mainville, geologist and professional geoscientist, manager, mining resources and methods at Cameco.

Raymond Jean-François Chauvet, geological engineer and professional geoscientist, former director, mining resources and methods at Cameco.

Steve Lunsford, registered professional geologist Wyoming, chief geologist at Power Resources, Inc.

Properties

McArthur River, Rabbit Lake, Key Lake, Dawn Lake, and Millennium

Cigar Lake and Inkai

Crow Butte, Gas Hills-Peach, Highland, North Butte/Brown Ranch, Northwest Unit, Reynolds Ranch, Ruby Ranch, Ruth, Shirley Basin and Smith Ranch

The qualified persons as a group, beneficially own, directly or indirectly, less than 1% of the issued and outstanding common shares of Cameco.

Canadian Securities Administrators' National Instrument 43-101 requires mining companies to disclose reserves and resources using the subcategories of proven reserves, probable reserves, measured resources, indicated resources and inferred resources. Cameco reports reserves and resources separately. (See "Note Regarding Reserves and Resources").

Cameco reports all its mineral reserves as quantity of contained ore supporting the mining plans and includes an estimate of the metallurgical recovery for each of its properties. Metallurgical recovery is a term used in the mining industry to indicate the proportion of valuable material physically recovered by the metallurgical extraction process. The estimated recoverable amount of a commodity is obtained by multiplying the reserves "Content" by the "Estimated Metallurgical Recovery Percentage."

Uranium Reserves

The following table shows the estimated uranium reserves as at December 31, 2005 on a property basis and Cameco's share.

PROPERTY*	PROVEN (100% basis)			PROBABLE (100% basis)			TOTAL RESERVES (100% basis)			Cameco's Share lbs U ₃ O ₈	Estimated Metallurgical Recovery %	Mining Method ²
	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈			
Cigar Lake	497.0	20.67	226.3	54.0	4.41	5.2	551.0	19.06	231.5	115.8	99	UG
Crow Butte	816.4	0.39	6.8	195.6	0.24	1.0	1,012.0	0.35	7.8	7.8	85	ISL
Gas Hills - Peach	-	-	-	6,851.0	0.14	19.7	6,851.0	0.14	19.7	19.7	65	ISL
Highland	672.8	0.12	1.8	1,016.6	0.12	2.7	1,689.3	0.12	4.5	4.5	80	ISL
Inkai	22,700.0	0.07	35.4	63,700.0	0.06	79.0	86,400.0	0.06	114.4	68.6	80	ISL
Key Lake	61.9	0.52	0.7	-	-	-	61.9	0.52	0.7	0.6	99	OP
McArthur River	363.4	24.38	195.3	363.6	24.17	193.8	727.0	24.28	389.1	271.6	99	UG
North Butte/ Brown Ranch	-	-	-	3,874.6	0.10	8.5	3,874.6	0.10	8.5	8.5	80	ISL
Rabbit Lake	176.7	0.80	3.1	206.4	1.73	7.9	383.1	1.30	11.0	11.0	97	UG
Ruby Ranch	-	-	-	2,832.2	0.09	5.5	2,832.2	0.09	5.5	5.5	80	ISL
Ruth	-	-	-	853.7	0.10	1.7	853.7	0.10	1.7	1.7	80	ISL
Smith Ranch	1,368.8	0.09	2.8	3,143.1	0.12	8.3	4,512.0	0.11	11.1	11.1	80	ISL
Total⁴	26,657.0	-	472.2	83,090.8	-	333.3	109,747.8	-	805.5	526.4	-	-

*tonnes in thousands; pounds in millions

Notes:

¹ Cameco reports reserves and resources separately.

² Mining Method: OP – Open Pit; UG – Underground; ISL – In Situ Leaching.

³ For United States reporting purposes, Industry Guide 7 under the Securities and Exchange Act of 1934, as interpreted by the staff of the U.S. Securities and Exchange Commission, applies different standards to classify mineralization as a reserve. Accordingly, for US reporting purposes as of December 31, 2005, the mineralization at the Ruth uranium in situ leach project in Wyoming is classified as mineralized material.

⁴Totals may not add, due to rounding.

⁵ For the purpose of estimating reserves in accordance with National Instrument 43-101, a uranium price of \$22.70 (US) per pound U₃O₈ was used. For the purpose of estimating reserves in accordance with US Securities Commission Industry Guide 7 for US reporting purposes, a uranium price of \$19.60 (US) was used. Estimated uranium reserves are the same using either uranium price except for the Ruth uranium in situ leach project in Wyoming, which is classified for US reporting purposes as mineralized material.

In addition to the above reserves, Cameco has contractual committed supplies, including supplies under the HEU Commercial Agreement, of approximately 59 million pounds of uranium from January 1, 2006 until the end of 2013.

Uranium Measured and Indicated Resources

Cautionary note to investors concerning estimates of measured and indicated resources:

This section uses the terms "measured resources" and "indicated resources". US investors are advised that while those terms are recognized and required by Canadian securities regulatory authorities, the US Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposit in these categories will ever be converted into proven or probable reserves.

The following table shows the estimated uranium measured and indicated resources as at December 31, 2005 on a property basis and Cameco's share.

RESOURCES ¹	MEASURED (100% basis)			INDICATED (100% basis)			MEASURED AND INDICATED (100% basis)				Cameco's Share lbs U ₃ O ₈	Mining Method ²
	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈			
Crow Butte	—	—	—	1,475.8	0.25	8.1	1,475.8	0.25	8.1	8.1	ISL	
Dawn Lake	—	—	—	347.0	1.69	12.9	347.0	1.69	12.9	7.4	OP&UG	
Gas Hills – Peach	2,013.0	0.09	3.3	1,153.0	0.08	2.3	3,166.1	0.08	5.6	5.6	ISL	
Highland	782.3	0.10	1.7	47.0	0.09	0.1	829.3	0.10	1.8	1.8	ISL	
Inkai	—	—	—	11,033.0	0.06	14.2	11,033.0	0.06	14.2	8.5	ISL	
McArthur River	40.9	10.21	9.2	39.8	8.39	7.4	80.7	9.33	16.6	11.6	UG	
Millennium	—	—	—	449.0	4.63	45.8	449.0	4.63	45.8	19.2	UG	
North Butte/ Brown Ranch	1,008.8	0.08	1.9	3,923.6	0.07	6.3	4,932.3	0.07	8.2	8.2	ISL	
Northwest Unit	—	—	—	4,000.7	0.04	2.3	4,000.7	0.04	2.3	2.3	ISL	
Rabbit Lake	—	—	—	456.3	0.74	7.5	456.3	0.74	7.5	7.5	UG	
Reynolds Ranch	3,073.5	0.07	4.5	5,245.3	0.06	7.0	8,318.8	0.06	11.5	11.5	ISL	
Ruby Ranch	156.0	0.18	0.6	108.0	0.06	0.1	264.0	0.12	0.7	0.7	ISL	
Ruth	99.8	0.10	0.2	125.2	0.07	0.2	225.0	0.07	0.4	0.4	ISL	
Shirley Basin	89.1	0.15	0.3	1,635.9	0.11	4.1	1,725.0	0.12	4.4	4.4	ISL	
Smith Ranch	30.8	0.20	0.1	2,406.4	0.09	5.0	2,437.2	0.09	5.1	5.1	ISL	
Total³	7,294.3	—	21.8	32,445.9	—	123.3	39,740.2	—	145.1	102.2	—	

*tonnes in thousands; pounds in millions

Notes:

¹ Cameco reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

² Mining Method: OP – Open Pit; UG – Underground; ISL - In Situ Leaching.

³ Totals may not add, due to rounding.

Uranium Inferred Resources

Cautionary note to investors concerning estimates of inferred resources:

This section uses the term "inferred resources". US investors are advised that while this term is recognized and required by Canadian securities regulatory authorities, the US Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence and great amount of uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred resource will ever be upgraded to a higher category. Under Canadian securities regulations, estimates of inferred resources may not form the basis of feasibility or pre-feasibility studies. Investors are cautioned not to assume that part or all of an inferred resource exists or is economically or legally mineable.

The following table shows the estimated uranium inferred resources as at December 31, 2005 on a property basis and Cameco's share.

PROPERTY*	INFERRED RESOURCES ¹ (100% basis)					Cameco's Share lbs U ₃ O ₈	Mining Method ²
	Tonnes	Grade % U ₃ O ₈	Content lbs U ₃ O ₈	Cameco's Share lbs U ₃ O ₈	Mining Method ²		
Cigar Lake	317.0	16.92	118.2	59.1	UG	—	—
Crow Butte	2,802.1	0.16	10.1	10.1	ISL	—	—
Gas Hills-Peach	656.8	0.07	0.8	0.8	ISL	—	—
Highland	587.6	0.15	2.0	2.0	ISL	—	—
Inkai	253,918.0	0.05	268.0	160.8	ISL	—	—
McArthur River	584.6	7.35	94.8	66.2	UG	—	—
Millennium	280.0	1.81	11.2	4.7	UG	—	—
North Butte/Brown Ranch	618.5	0.07	1.0	1.0	ISL	—	—
Northwest Unit	627.8	0.04	0.5	0.5	ISL	—	—
Rabbit Lake	104.7	1.60	3.7	3.7	UG	—	—
Reynolds Ranch	5,333.3	0.04	4.9	4.9	ISL	—	—
Ruby Ranch	60.8	0.15	0.2	0.2	ISL	—	—
Ruth	210.5	0.07	0.4	0.4	ISL	—	—
Shirley Basin	506.8	0.10	1.1	1.1	ISL	—	—
Smith Ranch	595.7	0.07	0.9	0.9	ISL	—	—
Total³	267,204.1	—	517.8	316.4	—	—	—

*tonnes in thousands; pounds in millions

Notes:

¹ Cameco reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

² Mining Method: OP – Open Pit; UG – Underground; ISL - In Situ Leaching.

³ Totals may not add, due to rounding.

Uranium Reserves Reconciliation

The following reconciliation of Cameco's share of uranium reserves reflects the changes in reserves during 2005. The 2005 additions and deletions result from additional information provided by mining and milling, analysis of drilling results, change in mining plans, re-estimation and reclassification.

Cameco's share of proven and probable uranium reserves has decreased by 26.9 million pounds, from 553.4 million pounds at the end of 2004 to 526.5 million pounds at the end of 2005. The majority of the decrease was attributable to mine production during 2005.

Another change in 2005 was the reclassification of a significant portion of McArthur River reserves from proven to probable. Currently, McArthur River mine uses only raise boring to extract ore. As expected from the start of mining, other mining methods may be used to maintain or expand production. In 2005, Cameco determined that the boxhole boring method would be better suited for the upper zone #4 at McArthur River, because it would allow for development from a preferred location.

Until Cameco has fully developed and tested the boxhole boring method, there is uncertainty in the estimated productivity. As a result, Cameco has reclassified 108.2 million pounds from proven to probable reserves in upper zone #4 at McArthur River (Cameco's share is 75 million pounds). Cameco does not expect this change to significantly impact its long-term production plans. Production from this zone is scheduled to begin in 2012.

In addition, the revisions to the proposed mining plan for the upper zone #4 and re-interpretation of a small portion of zone #2 have resulted in a decrease in proven reserves at McArthur River of 12.9 million pounds (Cameco's share is 9 million pounds).

RECONCILIATION OF CAMECO'S SHARE OF URANIUM RESERVES

(in thousands of pounds U₃O₈)

	2005	2005		
	December 31, 2004	Throughput ¹	Addition (Deletion)	December 31, 2005
Reserves – Proven				
Cigar Lake	113,222	–	–	113,222
Crow Butte	7,794	(979)	–	6,815
Highland	1,162	(894)	1,539 ²	1,807
Inkai	21,211	–	–	21,211
Key Lake	590	–	–	590
McArthur River	233,087	(12,620)	(84,144) ²	136,323
Rabbit Lake	8,096	(5,337)	368 ²	3,127
Smith Ranch	896	(763)	2,712 ²	2,845
Total Proven Reserves	386,058	(20,593)	(79,525)	285,940
Reserves – Probable				
Cigar Lake	2,625	–	–	2,625
Crow Butte	1,013	–	–	1,013
Gas Hills – Peach	22,056	–	(2,372) ²	19,684
Highland	2,855	–	(192) ²	2,663
Inkai	47,412	–	–	47,412
McArthur River	59,722	–	75,536 ²	135,258
North Butte/Brown Ranch	7,939	–	585 ²	8,524
Rabbit Lake	6,132	(740)	2,471 ²	7,863
Ruby Ranch	5,082	–	380 ²	5,462
Ruth ³	1,470	–	219 ²	1,689
Smith Ranch	11,057	–	(2,740) ²	8,317
Total Probable Reserves	167,363	(740)	73,887	240,510
Total Reserves	553,421	(21,333)	(5,638)	526,450

Notes:

¹ Corresponds to mill feed. The discrepancy between the 2005 mill feed and Cameco's share of 2005 pounds U₃O₈ produced is due to mill recovery, mill inventory and the processing of low-grade material.

² Changes in reserves or resources, as applicable, include reassessment of geological data, results of information provided by mining and milling, change in mining plan and subsequent reestimation and reclassification of reserves or resources, as applicable.

³ For United States reporting purposes, Industry Guide 7 under the Securities and Exchange Act of 1934, as interpreted by the staff of the US Securities and Exchange Commission, applies different standards to classify mineralization as a reserve. Accordingly, for US reporting purposes, the mineralization at the Ruth in situ leach project in Wyoming is classified as mineralized material.

Uranium Resources Reconciliation

The following reconciliation of Cameco's share of uranium resources reflects the changes in resources during 2005. The 2005 additions and deletions result from additional information provided by mining and milling, analysis of drilling results, property acquisitions, change in mining plans, re-estimation and reclassification.

There were only modest changes in resources in 2005 as outlined in the table below. The more noteworthy of these changes are:

- at Rabbit Lake, indicated resources increased by 3.5 million pounds and inferred resources increased by 3.7 million pounds due to drilling and reclassification.
- at McArthur River, inferred resources decreased by 7.5 million pounds due to drilling.
- at Millennium, indicated resources increased by 4.7 million pounds and inferred resources decreased by 1.9 million pounds due to additional surface drilling during 2005.
- at Crow Butte, indicated resources increased by 1.3 million pounds and inferred resources increased by 3.1 million pounds due to re-estimation and re-acquisition of the Marsland property.
- at Inkai, indicated resources increased by 6.8 million pounds due to re-estimation.

RECONCILIATION OF CAMECO'S SHARE OF URANIUM RESOURCES

(in thousands of pounds U₃O₈)

	December 31, 2004	2005	
		Addition (Deletion) ¹	December 31, 2005
Resources – Measured			
Gas Hills – Peach	4,662	(1,316)	3,346
Highland	1,663	–	1,663
McArthur River	6,879	(452)	6,427
North Butte/Brown Ranch	–	1,857	1,857
Reynolds Ranch	2,654	1,839	4,493
Ruby Ranch	862	(277)	585
Ruth	–	216	216
Shirley Basin	304	–	304
Smith Ranch	138	–	138
Total Measured Resources	17,162	1,867	19,029
Resources – Indicated			
Crow Butte	6,849	1,251	8,100
Dawn Lake	7,436	–	7,436
Gas Hills – Peach	3,845	(1,535)	2,310
Highland	92	–	92
Inkai	1,740	6,781	8,521
McArthur River	5,136	–	5,136
Millennium	14,520	4,700	19,220
North Butte/Brown Ranch	6,788	(485)	6,303
Northwest Unit	2,361	(20)	2,341
Rabbit Lake	4,009	3,477	7,486
Reynolds Ranch	7,791	(831)	6,960
Ruby Ranch	581	(438)	143
Ruth	609	(417)	192
Shirley Basin	4,085	–	4,085
Smith Ranch	4,951	33	4,984
Total Indicated Resources	70,793	12,516	83,309
Total Measured & Indicated	87,955	14,383	102,338
Resources – Inferred			
Cigar Lake	59,105	–	59,105
Crow Butte	6,979	3,104	10,083
Gas Hills – Peach	–	845	845
Highland	1,977	–	1,977
Inkai	160,793	–	160,793
McArthur River	73,675	(7,524)	66,151
Millennium	6,630	(1,930)	4,700
North Butte/Brown Ranch	734	232	966
Northwest Unit	1,093	(585)	508
Rabbit Lake	–	3,701	3,701
Reynolds Ranch	7,099	(2,187)	4,912
Ruby Ranch	–	184	184
Ruth	–	365	365
Shirley Basin	1,132	–	1,132
Smith Ranch	1,010	(114)	896
Total Inferred Resources	320,227	(3,909)	316,318

Notes:

¹ Changes in reserves or resources, as applicable, include reassessment of geological data, results of information provided by mining and milling, change in mining plan, and subsequent re-estimation and reclassification of reserves or resources, as applicable.



Gold Reserves and Resources

Reserve and resource estimates, the scientific and technical information, and description of the geology relating to Centerra's gold properties, as presented in this Annual Information Form, were reviewed by Alain Gaston Mainville, Geologist and Professional Geoscientist, who is Manager, Mining Resources and Methods at Cameco, and were prepared by or under the supervision of the following qualified person:

Qualified Person

Rob Chapman, geologist and professional geoscientist, director, mergers and acquisitions, Centerra.

Properties

Kumtor
Boroo
REN
Gatsuurt

To the knowledge of Cameco, the qualified person, beneficially owns, directly or indirectly, less than 1% of the issued and outstanding common shares of Cameco. Cameco's gold reserves and resources are located in the Kyrgyz Republic, Mongolia and the United States of America.

The following table shows the estimated gold reserves and resources as at December 31, 2005 on a property basis and Cameco's share. Cameco's share amounts to 52.7% of Centerra's share of the reserves and resources of the properties. The amount of reported resources does not include those amounts identified as reserves.

Cautionary note to investors concerning estimates of measured and indicated resources:

This section uses the terms "measured resources" and "indicated resources". US investors are advised that while those terms are recognized and required by Canadian securities regulatory authorities, the US Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposit in these categories will ever be converted into proven and probable reserves.

Cautionary note to investors concerning estimates of inferred resources:

This section uses the term "inferred resources". US investors are advised that while this term is recognized and required by Canadian securities regulatory authorities, the US Securities and Exchange Commission does not recognize it. "Inferred resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred resource will ever be upgraded to a higher category. Under Canadian securities regulations, estimates of inferred resources may not form the basis of feasibility or pre-feasibility studies. Investors are cautioned not to assume that part or all of an inferred resource exists or is economically or legally mineable.

RESERVES ^{1,3}	PROVEN (100% basis)			PROBABLE (100% basis)			TOTAL RESERVES (100% basis)			Cameco's Share 1000 oz Au	Estimated Metallurgical Recovery %	Mining Method ²
	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au			
PROPERTY*												
Boroo	8,810	2.8	774	4,580	3.0	444	13,390	2.8	1,218	609	89%	OP
Kumtor	17,600	3.7	2,099	22,562	3.9	2,854	40,162	3.8	4,953	2,609	83%	OP
Total	26,410	3.4	2,873	27,142	3.8	3,298	53,552	3.6	6,171	3,218	—	—

*tonnes and ounces in thousands

RESOURCES ¹	MEASURED (100% basis)						INDICATED (100% basis)						MEASURED AND INDICATED RESOURCES (100% basis)		
	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Cameco's Share 1000 oz Au	Mining Method ²	
PROPERTY*															
Boroo ^{1,4}	1,870	2.4	147	782	2.2	54	2,652	2.4	201	101	OP	OP	OP	OP	
Gatsuurt ⁶	—	—	—	18,597	3.1	1,854	18,597	3.1	1,854	977	OP	OP	OP	OP	
Kumtor ^{1,4}	13,406	3.8	1,634	10,601	4.1	1,387	24,007	3.9	3,021	1,591	OP/UG	OP/UG	OP/UG	OP/UG	
REN	—	—	—	2,753	13.6	1,201	2,753	13.6	1,201	393	UG	UG	UG	UG	
Total	15,276	3.6	1,781	32,733	4.3	4,496	48,009	4.1	6,277	3,062	—	—	—	—	

*tonnes and ounces in thousands

INFERRED RESOURCES¹
(100% basis)

PROPERTY*	Tonnes (thousands)	Grade g/t Au	Content 1000 oz Au	Cameco's Share 1000 oz Au	Mining Method ²
Boro ⁴	2,563	2.0	167	84	OP
Gatsuurt ⁶	3,980	3.0	378	199	OP
Kumtor ^{4,7}	5,475	4.6	803	423	OP/UG
REN ⁸	301	13.2	128	42	UG
Total	12,319	3.7	1,476	748	—

*tonnes and ounces in thousands

Notes:

¹ Cameco reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

² Mining Method: OP – Open Pit; UG – Underground.

³ For the purpose of estimating reserves in accordance with National Instrument 43-101 of the Canadian securities regulatory authorities and in accordance with US Securities and Exchange Commission's Industry Guide 7 for US reporting purposes, reserves were estimated with cut-off grades based on a gold price of \$400 (US) per ounce.

⁴ Open pit resources occur beneath the current ultimate pit designs using a gold price of \$400 per ounce.

⁵ The resources at Boro are estimated based on a variable cut-off grade depending on the type of material and the associated mill recovery. The cut-off grades vary from 0.9 grams per tonne to 1.1 grams per tonne.

⁶ The resources at Gatsuurt are estimated based on a cut-off grade of 1.6 grams per tonne.

⁷ The open pit resources at the Kumtor mine are estimated based on a cut-off grade 1.3 grams per tonne. Underground resources occur below the main Kumtor pit shell and are estimated based on a cut-off grade of 5.0 grams per tonne.

⁸ The resources at REN are estimated based on a cut-off grade of 8.0 grams per tonne.

Gold Reserves and Resources Reconciliation

The following reconciliation of Cameco's share of gold reserves and resources reflects the changes in gold reserves and resources during 2005. Part of the 2005 additions and deletions at Kumtor and Boro results from mining and milling, additional information provided by mining experience, drilling results analysis, reclassifications and a change in gold price.

RECONCILIATION OF CAMECO'S SHARE OF GOLD RESERVES AND RESOURCES¹
(in troy ounces)

	December 31, 2004	2005	2005	December 31, 2005
		Throughput ²	Addition (Deletion) ³	
Reserves – Proven				
Boro	34,000	(152,000)	505,000	387,000
Kumtor ⁴	1,106,000	(323,000)	323,000	1,106,000
Total Proven Reserves	1,140,000	(475,000)	828,000	1,493,000
Reserves – Probable				
Boro	552,000		(330,000)	222,000
Kumtor ⁴	606,000	—	897,000	1,503,000
Total Probable Reserves	1,158,000	—	567,000	1,725,000
Total Reserves	2,298,000	(475,000)	1,395,000	3,218,000
Resources – Measured				
Boro	—	—	74,000	74,000
Kumtor ⁵	525,000	—	336,000	861,000
Total Measured Resources	525,000	—	410,000	935,000
Resources – Indicated				
Boro	97,000	—	(70,000)	27,000
Gatsuurt ⁶	469,000	—	508,000	977,000
Kumtor ⁵	483,000		247,000	730,000
REN	259,000		134,000	393,000
Total Indicated Resources	1,308,000	—	819,000	2,127,000
Total Measured and Indicated Resources	1,833,000	—	1,229,000	3,062,000
Resources – Inferred				
Boro	97,000	—	(13,000)	84,000
Gatsuurt ⁶	80,000	—	119,000	199,000
Kumtor Gold ⁵	763,000	—	(340,000)	423,000
REN	169,000	—	(127,000)	42,000
Total Inferred Resources	1,109,000	—	(361,000)	748,000

Notes:

¹ Cameco reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

² Corresponds to mill feed. The discrepancy between the 2005 mill feed and Cameco's share of 2005 ounces produced is due to mill recovery.

³ Changes in reserves or resources, as applicable, are attributed to information provided by drilling and subsequent reclassification of reserves or resources, an increase in the gold price, changes in pit designs, reconciliation between the mill and the resource model, and changes to operating costs.

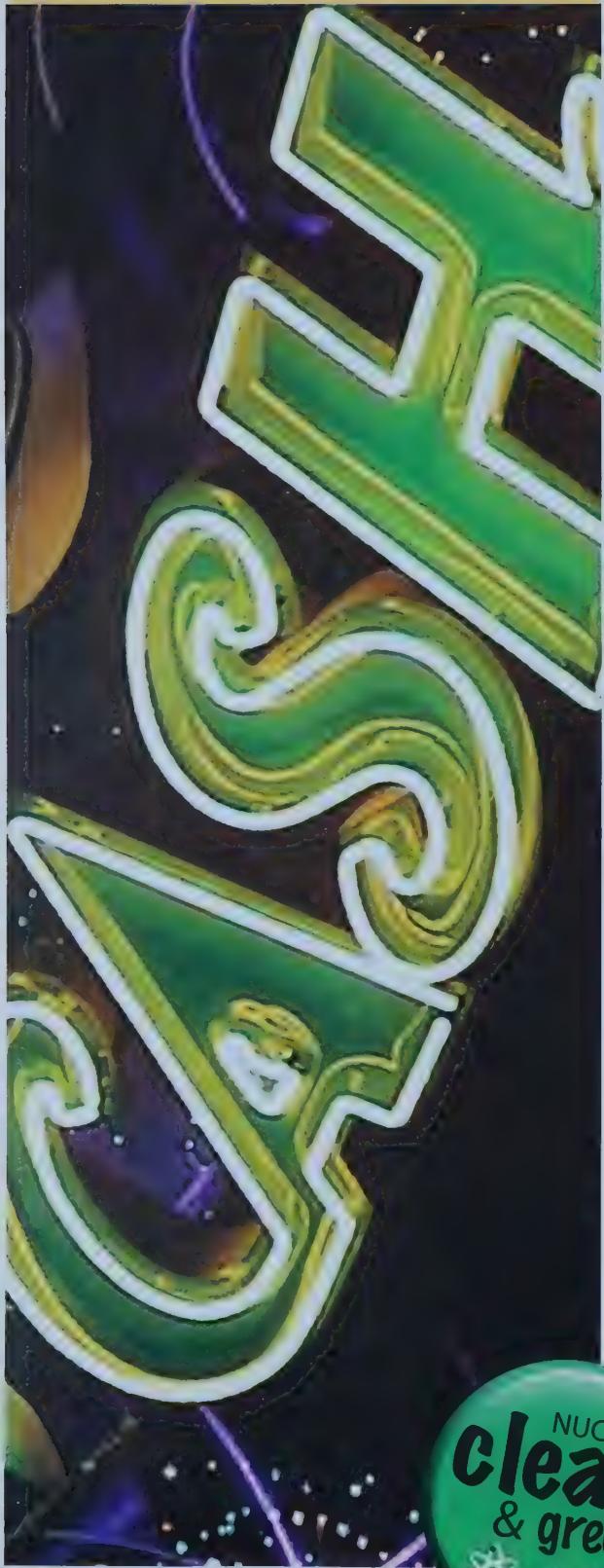
⁴ Kumtor reserves include the main pit and the Southwest Zone satellite deposit.

⁵ Kumtor resources include the main pit, the Southwest Zone and Sarytor satellite deposits.

⁶ Gatsuurt resources include the Central Zone and Main Zone deposits.

And it all adds up.

FINANCIAL INFORMATION



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Report of Management's Accountability

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the corporation's business transactions and financial position.

Management is also responsible for the information disclosed in the management's discussion and analysis including responsibility for the existence of appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

The integrity and reliability of Cameco's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Cameco's code of conduct and ethics, which is communicated to all levels in the

organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

Our shareholders' independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The board of directors annually appoints an audit committee comprised of directors who are not employees of the corporation. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the board of directors for formal approval.

Original signed by O. Kim Goheen

Senior Vice-President and Chief Financial Officer

JANUARY 30, 2006

Auditors' Report

To the Shareholders of Cameco Corporation

We have audited the consolidated balance sheets of Cameco Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Original signed by KPMG LLP

*Chartered Accountants
Saskatoon, Canada*

JANUARY 30, 2006, except as to notes 9, 21(d) and 26 which are as of February 20, 2006



Consolidated Balance Sheets

As at December 31

(\$Cdn thousands)

2005

2004

Assets

Current assets

Cash and cash equivalents	\$ 623,193	\$ 189,532
Accounts receivable	340,498	182,951
Inventories [note 3]	399,675	386,936
Supplies and prepaid expenses	152,790	90,923
Current portion of long-term receivables, investments and other [note 5]	8,303	898
	1,524,459	851,240
Property, plant and equipment [note 4]	2,871,337	2,281,418
Long-term receivables, investments and other [note 5]	196,747	732,262
Goodwill [note 19]	180,232	187,184
Total assets	\$4,772,775	\$ 4,052,104

Liabilities and Shareholders' Equity

Current liabilities

Accounts payable and accrued liabilities	\$ 350,399	\$ 231,697
Dividends payable	10,487	8,652
Current portion of long-term debt [note 6]	156,699	—
Current portion of other liabilities [note 8]	17,553	17,317
Future income taxes [note 13]	73,910	38,653
	609,048	296,319
Long-term debt [note 6]	702,109	518,603
Provision for reclamation [note 7]	167,568	166,941
Other liabilities [note 8]	124,780	31,086
Future income taxes [note 13]	444,942	533,024
	2,048,447	1,545,973
Minority interest	360,697	345,611

Shareholders' equity

Share capital [note 9]	779,035	750,559
Contributed surplus [note 9]	523,300	511,674
Retained earnings	1,114,693	938,809
Cumulative translation account [note 10]	(53,397)	(40,522)
	2,363,631	2,160,520

Total liabilities and shareholders' equity

Commitments and contingencies [notes 7, 21, 22]

See accompanying notes to consolidated financial statements.

Approved by the board of directors

Original signed by Gerald W. Grandey and Nancy E. Hopkins

5 Consolidated Statements of Earnings

For the years ended December 31
(\$Cdn thousands, except per share amounts)

Revenue from

Products and services

2005 2004 2003

\$1,312,655 \$ 1,048,487 \$ 826,946

Expenses

Products and services sold

814,032 623,125 538,233

Depreciation, depletion and reclamation

197,516 180,229 125,866

Administration

108,025 69,565 47,610

Exploration

57,468 35,972 21,913

Interest and other [note 11]

12,103 14,264 16,653

Research and development

2,410 1,911 1,717

Gain on sale of assets

(1,739) (1,958) -

1,189,815 923,108 751,992

Earnings from operations

122,840 125,379 74,954

Earnings from Bruce Power [note 16]

165,775 120,722 107,921

Other income (expense) [note 12]

(13,989) 133,421 429

Earnings before income taxes and minority interest

274,626 379,522 183,304

Income tax expense (recovery) [note 13]

30,257 73,285 (21,443)

Minority interest

26,738 27,452 (3,416)

Net earnings

\$ 217,631 **\$ 278,785** **\$ 208,163**

Basic earnings per common share [notes 9, 23]

\$ 0.63 \$ 0.81 \$ 0.62

Diluted earnings per common share [notes 9, 23]

\$ 0.60 \$ 0.78 \$ 0.61

5 Consolidated Statements of Retained Earnings

For the years ended December 31

2005 2004 2003

(\$Cdn thousands)

Retained earnings at beginning of year

\$ 938,809 \$ 694,423 \$ 519,910

Net earnings

217,631 278,785 208,163

Dividends on common shares

(41,747) (34,399) (33,650)

Retained earnings at end of year

\$ 1,114,693 **\$ 938,809** **\$ 694,423**

See accompanying notes to consolidated financial statements.

For the years ended December 31
(\$Cdn thousands)

Operating activities

	2005	2004	2003
Net earnings	\$ 217,631	\$ 278,785	\$ 208,163
Items not requiring (providing) cash:			
Depreciation, depletion and reclamation	197,516	180,229	125,866
Provision for future taxes [note 13]	(51,723)	31,058	(31,662)
Deferred charges (revenue) recognized	(44,963)	(19,085)	9,331
Unrealized gains on derivatives	10,513	(7,217)	—
Stock-based compensation [note 17]	14,751	7,206	2,439
Gain on sale of assets	(1,739)	(1,958)	—
Earnings from Bruce Power	(165,775)	(120,722)	(107,921)
Equity in (earnings) loss from associated companies [note 12]	(184)	(990)	1,494
Other income	16,577	(124,050)	—
Minority interest	26,738	27,452	(3,416)
Other operating items [note 14]	58,194	(22,666)	45,462
Cash provided by operations	277,536	228,042	249,756

Investing activities

Acquisition of net business assets, net of cash acquired	—	(3,717)	—
Additions to property, plant and equipment	(284,929)	(148,273)	(166,840)
Restructuring of Bruce Power	200,000	—	—
Net proceeds on sale of investment in Energy Resources of Australia Ltd	101,956	—	—
Increase in long-term receivables, investments and other	(6,077)	(10,466)	(296,608)
Proceeds on sale of property, plant and equipment	10,532	1,769	242
Cash provided by (used in) investing	21,482	(160,687)	(463,206)

Financing activities

Short-term financing	(14,544)	14,544	—
Decrease in debt	(167,233)	(169,083)	(25,848)
Increase in debt	—	100,300	59,001
Issue of debentures, net of issue costs	297,750	—	—
Issue of convertible debentures, net of issue costs	—	—	223,032
Issue of shares	25,199	41,281	27,411
Subsidiary issue of shares	—	101,234	—
Dividends	(39,970)	(34,262)	(32,275)
Cash provided by financing	101,202	54,014	251,321
Increase in cash during the year	400,220	121,369	37,871
Exchange rate changes on foreign currency cash balances	(9,662)	(15,906)	(11,898)
Increase in cash due to accounting change [note 16]	43,103	—	—
Cash at beginning of year	189,532	84,069	58,096
Cash at end of year	\$ 623,193	\$ 189,532	\$ 84,069

Supplemental cash flow disclosure

Interest paid	\$ 26,610	\$ 35,968	\$ 31,026
Income taxes paid	\$ 48,429	\$ 18,262	\$ 11,537

See accompanying notes to consolidated financial statements.

For the years ended December 31, 2005, 2004 and 2003
(\$Cdn thousands except per share amounts and as noted)

1. Cameco Corporation

Cameco Corporation is incorporated under the Canada Business Corporations Act. Cameco Corporation and its subsidiaries (collectively, "Cameco" or "the company") are primarily engaged in the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries. The company has a 31.6% interest in Bruce Power L.P. ("BPLP"), which operates the four Bruce B nuclear reactors in Ontario. Cameco's 52.7% subsidiary Centerra Gold Inc. ("Centerra") is involved in the exploration for and the development, mining and sale of gold.

2. Accounting Policies

(a) Significant Accounting Policies

A summary of significant accounting policies follows the notes to the consolidated financial statements.

(b) New Accounting Pronouncements

- (i) In January 2005, the CICA issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments – Recognition and Measurement and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for Cameco's fiscal years beginning January 1, 2007. The impact of implementing these new standards is not yet determinable as it is dependent on Cameco's outstanding positions, hedging strategies and market volatility.

Comprehensive income

In January 2005, the CICA issued new standards for the reporting and display of comprehensive income.

Unrealized gains and losses on financial assets that will be held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments, will be recorded in the Consolidated Statement of Other Comprehensive Income until recognized in the Consolidated Statement of Earnings. Other comprehensive income will form part of shareholders' equity.

Equity

In January 2005, the CICA issued revised standards requiring an enterprise to present a separate component of equity for each category of equity that is of a different nature.

Financial instruments

Disclosure and presentation

In April 2005, the CICA issued revised standards addressing the presentation and disclosure of financial instruments and non-financial derivatives.

Recognition and measurement

In January 2005, the CICA issued new standards for the recognition and measurement of financial instruments. Under the new standard, all financial instruments will be classified as one of the following: held to maturity, loans and receivables, held for trading or available for sale. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with gains and losses recognized in other comprehensive income. The standard permits re-designation of any financial instrument as held for trading.

Hedges

In January 2005, the CICA issued new standards which specify the circumstances under which hedge accounting is permissible and how hedge accounting may be performed.

Fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation are permissible under the new section. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in net earnings. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net earnings. The amounts recognized in accumulated other comprehensive income will be reclassified to net earnings in the periods in which earnings are affected by the variability in the cash flows of the hedged item.

(ii) Non-monetary transactions

In June 2005, the CICA issued Handbook Section 3831, which provides revised standards on non-monetary transactions requiring that all non-monetary transactions be measured at fair value unless certain criteria are met.

These standards are effective for all non-monetary transactions initiated after January 1, 2006. Cameco does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

3. Inventories

	2005	2004
Uranium		
Concentrate	\$ 292,099	\$ 312,042
Broken ore	9,661	12,123
	<hr/> 301,760	<hr/> 324,165
Conversion	63,492	36,098
Gold		
Finished	14,311	12,651
Broken ore	20,112	14,022
	<hr/> 34,423	<hr/> 26,673
Total	\$ 399,675	\$ 386,936

4. Property, Plant and Equipment

	Cost	Accumulated Depreciation and Depletion	2005 Net	2004 Net
Uranium				
Mining				
Non-producing	\$ 2,712,013 577,181	\$ 1,382,042 –	\$ 1,329,971 577,181	\$ 1,352,529 446,753
Conversion	290,006	158,349	131,657	134,669
Power				
Assets under capital lease	164,300	43,100	121,200	–
Other	481,205	81,960	399,245	–
Gold				
Mining	828,165	550,680	277,485	321,201
Non-producing	2,877	–	2,877	2,970
Other	51,095	19,374	31,721	23,296
Total	\$ 5,106,842	\$ 2,235,505	\$ 2,871,337	\$ 2,281,418

5. Long-Term Receivables, Investments and Other

	2005	2004
BPLP [note 16]		
Interest in BPLP	\$ –	\$ 569,013
Loan receivable	–	75,195
Capital lease receivable from Bruce A L.P.	97,454	–
Receivable from Ontario Power Generation ("OPG")	19,181	–
Accrued pension benefit asset [note 18]	18,119	–
Kumtor Gold Company ("KGC")		
Reclamation trust fund	5,087	4,893
Investments in associated companies		
Investment in Technology Commercialization International, Inc.	–	2,647
Investment in UEX Corporation (market \$166,530)	11,303	8,339
Portfolio investments		
Energy Resources of Australia Ltd	–	18,208
General Hydrogen Corporation	–	6,323
Deferred charges		
Debt issue costs	8,538	6,934
Gold hedges	3,291	9,894
Investment in Huron Wind L.P.	2,527	2,616
Advances receivable		
Accrued pension benefit asset [note 18]	21,928	15,104
Other	9,689	10,132
	7,933	3,862
	205,050	733,160
Less current portion	(8,303)	(898)
Net	\$ 196,747	\$ 732,262

Cameco, TransCanada PipeLines Limited ("TransCanada") and BPC Generation Infrastructure Trust ("BPC") loaned BPLP funds to repay \$225,000,000, plus accrued interest, in deferred lease payments to OPG. Cameco's share was \$75,000,000 plus accrued interest at 10.5%. The loan receivable was eliminated in the change to proportionate consolidation.

BPLP leases the Bruce A nuclear generating plants and other property, plant and equipment to Bruce A L.P. under a sublease agreement. Future minimum base rent sublease payments under the capital lease receivable are imputed using a 7.5% discount rate.

6. Long-Term Debt

	2005	2004
Convertible debentures	\$ 204,577	\$ 202,370
Debentures	450,000	150,000
Capital lease obligation – BPLP [note 16]	204,231	–
Commercial paper	–	166,233
	858,808	518,603
Less current portion	(156,699)	–
Net	\$ 702,109	\$ 518,603

On September 25, 2003 the company issued unsecured convertible debentures in the amount of \$230,000,000. The debentures bear interest at 5% per annum, mature on October 1, 2013, and at the holder's option are convertible into common shares of Cameco. The fair value of the conversion option associated with the convertible debentures on the date of issuance was \$30,473,000, resulting in an effective interest rate of 6.85%. The amount is reflected as contributed surplus. The conversion price is \$10.83 per share, a rate of approximately 92.3 common shares per \$1,000 of convertible debentures. Interest is payable semi-annually in arrears on April 1 and October 1. The debentures are redeemable by the company beginning October 1, 2008 at a redemption price of par plus accrued and unpaid interest.

The fair value of the outstanding convertible debentures is based on the quoted market price of the debentures at December 31, 2005 and was approximately \$794,000,000.

Cameco has \$100,000,000 outstanding in senior unsecured debentures (Series A) that bear interest at a rate of 6.9% per annum and mature July 12, 2006. Cameco also has \$50,000,000 outstanding in senior unsecured debentures (Series B) that bear interest at a rate of 7.0% per annum and mature July 6, 2006. Cameco completed a \$300,000,000 senior unsecured debenture (Series C) issuance on September 16, 2005. These debentures bear interest at a rate of 4.7% per annum and mature September 16, 2015. On December 12, 2005, Cameco announced its intention to redeem in full the Series A and B debentures. The redemption prices under the trust indenture are based on the yield for a Government of Canada bond with the equivalent term to maturity plus 25 basis points for the Series A debentures and 34 basis points for the Series B debentures. The total redemption price of \$152,104,000 plus accrued and unpaid interest was paid on January 17, 2006.

BPLP holds a long-term lease with OPG to operate the Bruce nuclear power facility. The term of the lease, which expires in 2018, is 18 years with an option to extend the lease for up to an additional 25 years.

Cameco has a \$500,000,000 unsecured revolving credit facility that is available until November 30, 2010. Cameco may also borrow directly in the commercial paper market. Commercial paper outstanding at December 31, 2005 was nil (2004 – \$166,233,000) and bears interest at an average rate of nil (2004 – 2.5%). These amounts, when drawn, are classified as long-term debt.

BPLP has a \$150,000,000 credit facility that is available until May 8, 2006. As at December 31, 2005, BPLP did not have any amount outstanding under the facility.

Cameco has \$246,530,000 (\$166,201,000 (Cdn) and \$68,899,000 (US)) in letter of credit facilities. Outstanding letters of credit at December 31, 2005 amounted to \$206,647,000 (2004 – \$203,570,000). The majority of the letters of credit relate to future decommissioning and reclamation liabilities [note 7].

The table below represents currently scheduled maturities of long-term debt over the next five years.

2006	\$ 156,699
2007	7,890
2008	8,830
2009	10,170
2010	11,613
Thereafter	663,606
Total	\$ 858,808

7. Provision for Reclamation

Cameco's estimates of future asset retirement obligations are based on reclamation standards that satisfy regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties.

Cameco estimates total future decommissioning and reclamation costs for its operating assets to be \$239,000,000. These estimates are reviewed by Cameco technical personnel as required by regulatory agencies or more frequently as circumstances warrant. In connection with future decommissioning and reclamation costs, Cameco has provided financial assurances of \$203,300,000 in the form of letters of credit to satisfy current regulatory requirements.

Following is a reconciliation of the total liability for asset retirement obligations:

	2005	2004	2003
Balance, beginning of year	\$ 166,941	\$ 150,444	\$ 159,344
Acquisition of Kumtor interest [note 20]	–	14,852	–
Additions to liabilities	579	2,074	–
Liabilities settled	(6,938)	(4,357)	(13,214)
Accretion expense	9,017	9,246	8,757
Impact of foreign exchange	(2,031)	(5,318)	(4,443)
Balance, end of year	\$ 167,568	\$ 166,941	\$ 150,444

Following is a summary of the key assumptions on which the carrying amount of the asset retirement obligations is based:

- (i) Total undiscounted amount of the estimated cash flows – \$239,000,000.
- (ii) Expected timing of payment of the cash flows – timing is based on life of mine plans. The majority of expenditures are expected to occur after 2013.
- (iii) Discount rates – 7.5% for operations in North America; 8.0% for operations in Kyrgyzstan; 8.5% for operations in Mongolia.

The asset retirement obligations liability is comprised of:

	2005	2004
Uranium	\$ 101,573	\$ 96,803
Conversion	44,923	47,090
Gold	21,072	23,048
Total	\$ 167,568	\$ 166,941

Under the BPLP lease agreement, OPG, as the owner of the Bruce nuclear plants, is responsible to decommission the Bruce facility and to provide funding and meet other requirements that the Canadian Nuclear Safety Commission ("CNSC") may require of BPLP as licensed operator of the Bruce facility. OPG is also responsible to manage radioactive waste associated with decommissioning of the Bruce nuclear plants.

8. Other Liabilities

	2005	2004
Deferred revenue – currency hedges	\$ 26,171	\$ 22,975
Short-term financing	–	14,544
Accrued post-retirement benefit liability [note 18]	7,403	4,460
BPLP		
Accrued post-retirement benefit liability [note 18]	78,149	–
Deferred revenue – electricity contracts	16,047	–
14,563	6,424	
Other	142,333	48,403
Less current portion	(17,553)	(17,317)
Net	\$ 124,780	\$ 31,086

9. Share Capital

On January 31, 2006, the board of directors of Cameco approved a split of the company's outstanding common shares on a two-for-one basis. The stock split was effected in the form of a stock dividend of one additional common share for each share owned by shareholders of record at the close of business on February 17, 2006. The company's common shares commenced trading on a split basis on February 15, 2006 on the Toronto Stock Exchange ("TSX") and February 23, 2006 on the New York Stock Exchange. All share and per-share data have been adjusted to reflect the stock split. If this data had not been adjusted, basic earnings per common share would have been \$1.25 (2004 – \$1.63; 2003 – \$1.24).

Authorized share capital:

- Unlimited number of first preferred shares
- Unlimited number of second preferred shares
- Unlimited number of voting common shares, and
- One Class B share

(a) Common Shares

Number Issued (Number of Shares)	2005	2004	2003
Beginning of year	346,080,138	340,616,538	335,915,238
Issued:			
Debenture conversions	16,150	–	–
Stock option plan [note 17]	3,473,760	5,463,600	4,701,300
Issued share capital	349,570,048	346,080,138	340,616,538

Amount	2005	2004	2003
Beginning of year	\$ 751,145	\$ 711,063	\$ 685,491
Issued:			
Debenture conversions	175	–	–
Stock option plan [note 17]	28,100	40,082	25,572
Issued share capital	779,420	751,145	711,063
Less loans receivable [note 17]	(385)	(586)	(2,718)
End of year	\$ 779,035	\$ 750,559	\$ 708,345

(b) Class B Share

One Class B share issued during 1988 and assigned \$1 of share capital, entitles the shareholder to vote separately as a class in respect of any proposal to locate the head office of Cameco to a place not in the province of Saskatchewan.

(c) Contributed Surplus

	2005	2004
Beginning of year	\$ 511,674	\$ 505,400
Stock-based compensation [note 17]	14,751	7,206
Options exercised [note 17]	(3,102)	(932)
Debenture conversions	(23)	–
End of year	\$ 523,300	\$ 511,674

10. Cumulative Translation Account

The balance represents the cumulative unrealized net exchange loss on Cameco's net investments in foreign operations and any foreign currency debt designated as hedges of the net investments.

11. Interest and Other

	2005	2004	2003
Interest on long-term debt	\$ 35,388	\$ 40,014	\$ 38,901
Redemption of preferred securities	—	6,817	—
Other interest and financing charges	1,600	3,870	2,221
Foreign exchange losses	3,719	331	3,620
(Gains) losses on derivatives	7,754	(7,217)	—
Interest income	(10,517)	(4,819)	(6,776)
Capitalized interest	(25,841)	(24,732)	(21,313)
Net	\$ 12,103	\$ 14,264	\$ 16,653

12. Other Income (Expense)

	2005	2004	2003
Restructuring of gold business	\$ —	\$ 122,946	\$ —
Restructuring of Bruce Power	(93,545)	—	—
Sale of investment in Energy Resources of Australia Ltd	83,673	—	—
South Texas Project break fee	—	8,102	—
Dividends on portfolio investments	2,022	1,383	1,923
Writedown of portfolio investments	(6,323)	—	—
Equity in earnings (loss) of associated companies	184	990	(1,494)
Net	\$ (13,989)	\$ 133,421	\$ 429

13. Income Taxes

The significant components of future income tax assets and liabilities at December 31 are as follows:

	2005	2004
Assets		
Property, plant and equipment	\$ 129,823	\$ 87,203
Provision for reclamation	53,901	49,903
Foreign exploration and development	33,618	32,479
Other	53,691	5,621
Future income tax assets before valuation allowance	271,033	175,206
Valuation allowance	(112,519)	(95,500)
Future income tax assets, net of valuation allowance	\$ 158,514	\$ 79,706
Liabilities		
Property, plant and equipment	\$ 571,585	\$ 568,275
Inventories	12,100	7,511
Long-term investments and other	93,681	75,597
Future income tax liabilities	\$ 677,366	\$ 651,383
Net future income tax liabilities	\$ 518,852	\$ 571,677
Less current portion	(73,910)	(38,653)
	\$ 444,942	\$ 533,024

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

	2005	2004	2003
Earnings before income taxes and minority interest	\$ 274,626	\$ 379,522	\$ 183,304
Combined federal and provincial tax rate	42.4%	43.5%	44.1%
Computed income tax expense	116,441	165,092	80,837
Increase (decrease) in taxes resulting from:			
Change in tax legislation	—	—	(81,300)
Provincial royalties and other taxes	3,079	5,541	7,380
Federal resource allowance	(8,181)	2,251	(1,506)
Manufacturing and processing deduction	(1,321)	(7,439)	(8,443)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(91,049)	(61,398)	(18,968)
Non-taxable portion of capital gain	(10,300)	(28,448)	—
Change in valuation allowance	17,019	(11,185)	—
Large corporations and other taxes	8,602	5,780	4,988
Stock-based compensation plans	6,121	3,128	1,076
Recovery of taxes due to amendment of tax treatment	(10,342)	—	—
Other	188	(37)	(5,507)
Income tax expense (recovery)	\$ 30,257	\$ 73,285	\$ (21,443)

In 2003, the federal government introduced amendments to the Canadian Income Tax Act which provided for a reduction in the corporate tax rate on income from resource activities. The cumulative effect of the change in income tax legislation on Cameco's future income tax liability was a reduction of \$86,200,000.

In 2003, the Ontario government introduced amendments to the Corporations Tax Act which provided for an increase in the corporate tax rate on all income. The cumulative effect of the change in income tax legislation on Cameco's future income tax liability was an increase of \$4,900,000.

	2005	2004	2003
Current income taxes			
Canada	\$ 53,719	\$ 34,486	\$ 6,984
United States	583	1,348	—
Other	27,678	6,393	3,235
Future income taxes (recovery)	\$ 81,980	\$ 42,227	\$ 10,219
Canada	\$ (56,923)	\$ 38,153	\$ (30,786)
United States	2,538	(5,107)	—
Other	2,662	(1,988)	(876)
Net	\$ (51,723)	\$ 31,058	\$ (31,662)
	\$ 30,257	\$ 73,285	\$ (21,443)

14. Statements of Cash Flows

Other Operating Items

	2005	2004	2003
Changes in non-cash working capital:			
Accounts receivable	\$ (78,552)	\$ 4,660	\$ 8,329
Inventories	(21,079)	(51,913)	(11,590)
Supplies and prepaid expenses	(22,282)	(16,629)	(3,649)
Accounts payable and accrued liabilities	44,381	39,083	31,989
Hedge position settlements	63,248	3,634	30,852
Reclamation payments	(6,535)	(5,186)	(9,903)
Bruce Power distributions	83,740	—	—
Other	(4,727)	3,685	(566)
Total	\$ 58,194	\$ (22,666)	\$ 45,462

15. Joint Ventures

Cameco conducts a portion of its exploration, development, mining and milling activities through joint ventures. Cameco's significant uranium joint venture interests are comprised of:

Producing:

McArthur River	69.81%
Key Lake	83.33%

Non-producing:

Cigar Lake	50.03%
Inkai	60.00%

Uranium joint ventures allocate uranium production to each joint venture participant and the joint venture participant derives revenue directly from the sale of such product. Mining and milling expenses incurred by the joint venture are included in the cost of inventory.

Cameco previously accounted for its investment in BPLP using the equity method. As a result of the restructuring of the partnership agreement, which provides for joint control among the three major partners, Cameco began accounting for this investment as a joint venture effective November 1, 2005 [note 16].

16. Investment in BPLP

(a) Restructuring

On October 31, 2005, a new Bruce A limited partnership was formed to hold the lease for the four Bruce A reactors. Cameco was not part of this new partnership but it has maintained its existing 31.6% interest in BPLP, which retained ownership of the four Bruce B reactors. BPLP received an initial payment for the assets transferred to the Bruce A partnership which resulted in a special distribution to the partners. Cameco's share of the special distribution was \$200,000,000. The reorganization involving Bruce A triggered a loss of about \$62,000,000 (Cameco's share after tax) and resulted in amendments to the existing partnership agreement. These amendments led to joint control among the three major partners. As a result, effective November 1, 2005, Cameco has proportionately consolidated its 31.6% interest. Prior to November 1, 2005, Cameco was using the equity method to account for this investment.

(b) Fuel Supply Agreements

Cameco has entered into fuel supply agreements with BPLP for the procurement of fabricated fuel. Under these agreements, Cameco will supply uranium and conversion services and finance the purchase of fabrication services. Contract terms are at market rates and on normal trade terms. During 2005, sales of uranium and conversion services to BPLP amounted to \$22,017,000 (2004 – \$24,786,000), approximately 1.7% (2004 – 2.4%) of Cameco's total revenue. At December 31, 2005, amounts receivable under these agreements totalled \$26,666,000 (2004 – \$20,887,000).

(c) Supplementary Information

Cameco holds a 31.6% limited partnership interest in BPLP. Prior to November 1, 2005, Cameco accounted for its interest in BPLP using the equity method. Since November 1, 2005, Cameco has proportionately consolidated its share of BPLP. For 2005, \$114,000,000 of earnings before taxes was accounted for under the equity method.

Balance Sheets

(Millions)

	2005	2004
Current assets	\$ 133	\$ 123
Property, plant and equipment	415	706
Long-term receivables and investments	144	54
	\$ 692	\$ 883
Current liabilities	\$ 98	\$ 77
Long-term liabilities	354	356
	452	433
Equity	240	450
	\$ 692	\$ 883

Statements of Earnings

(Millions)

	2005	2004	2003
Revenue	\$ 565	\$ 494	\$ 351
Operating costs	380	366	252
Earnings before interest and taxes	185	128	99
Interest	21	21	22
Loss on restructuring	47	—	—
Earnings before taxes	\$ 117	\$ 107	\$ 77

Statements of Cash Flows

(Millions)

	2005	2004	2003
Cash provided by operations	\$ 244	\$ 140	\$ 122
Cash provided by (used in) investing	103	(114)	(167)
Cash (used in) provided by financing	(328)	(33)	41

17. Stock-Based Compensation Plans

Stock Option Plan

Cameco has established a stock option plan under which options to purchase common shares may be granted to directors, officers and other employees of Cameco. Options granted under the stock option plan have an exercise price of not less than the closing price quoted on the TSX for the common shares of Cameco on the trading day prior to the date on which the option is granted. The options vest over three years and expire eight years from the date granted. Options granted prior to 1999 expire 10 years from the date of the grant of the option.

Prior to 1999, participants were eligible to receive loans from Cameco to assist in the purchase of common shares pursuant to the exercise of options. The maximum term of the loans was 10 years from the date of the grant of the related option. The loans bear interest at a rate equivalent to the regular dividends paid on the common shares to which the loans were provided. Common shares purchased by way of a company loan are held in escrow in the account of the option holder and are pledged as security for the respective loan until the loan has been repaid in full. Outstanding loans are shown as a reduction of share capital [note 9].

The aggregate number of common shares that may be issued pursuant to the Cameco stock option plan shall not exceed 31,460,418, of which 19,613,034 shares have been issued.

Stock option transactions for the respective years were as follows:

(Number of Options)	2005	2004	2003
Beginning of year	9,737,340	12,240,000	13,342,500
Options granted	2,631,180	4,170,000	4,238,100
Options exercised [note 9]	(3,473,760)	(5,463,600)	(4,701,300)
Options cancelled	(171,590)	(1,209,060)	(639,300)
End of year	8,723,170	9,737,340	12,240,000
Exercisable	2,859,318	3,253,800	5,724,600

Upon exercise of certain existing options, additional options in respect of 121,600 shares would be granted.

Weighted average exercise prices were as follows:

	2005	2004	2003
Beginning of year	\$ 7.64	\$ 6.71	\$ 6.50
Options granted	27.11	11.42	6.43
Options exercised	7.16	7.20	5.44
Options cancelled	28.79	13.17	9.68
End of year	\$ 13.29	\$ 7.64	\$ 6.71
Exercisable	\$ 6.93	\$ 6.27	\$ 7.30

Total options outstanding and exercisable at December 31, 2005 were as follows:

2005	Options Outstanding			Options Exercisable	
	Option Price Per Share	Number	Weighted Average Remaining Life	Weighted Average Exercisable Price	Number
\$ 3.13 - 5.84	720,000	3	\$ 4.40	720,000	\$ 4.40
5.85 - 9.17	2,945,800	5	6.42	1,586,800	6.80
9.18 - 12.59	2,588,480	6	10.54	552,518	10.61
12.60 - 35.88	2,468,890	8	26.97	-	-
	8,723,170			2,859,318	

The foregoing options have expiry dates ranging from March 10, 2006 to December 8, 2015.

CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, establishes a fair value based method of accounting for stock-based compensation plans which Cameco has adopted effective January 1, 2003.

For the year ended December 31, 2005, Cameco has recorded compensation expense of \$14,751,000 (2004 – \$7,206,000; 2003 – \$2,439,000) with an offsetting credit to contributed surplus to reflect the estimated fair value of stock options granted to employees in 2005.

Since Cameco's stock option awards vest over three years, the compensation expense included in the determination of net income for 2005 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of CICA Section 3870.

Cameco has applied the pro forma disclosure provisions of the standard to awards granted on or after January 1, 2002 but prior to January 1, 2003. The pro forma effect of awards granted prior to January 1, 2002 has not been included. The pro forma net earnings, basic and diluted earnings per share after giving effect to the grant of these options in 2002 are:

	2005	2004	2003
Net earnings – as reported	\$ 217,631	\$ 278,785	\$ 208,163
Add: Stock option employee compensation expense included in reported net earnings	14,751	7,206	2,439
Deduct: Total stock option employee compensation expense determined under fair value based method for all awards	(14,828)	(7,810)	(3,893)
Net earnings – pro forma	\$ 217,554	\$ 278,181	\$ 206,709
Pro forma basic earnings per share	\$ 0.63	\$ 0.81	\$ 0.61
Pro forma diluted earnings per share	\$ 0.60	\$ 0.78	\$ 0.60

The fair value of the options issued was determined using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004	2003
Number of options granted	2,631,180	4,170,000	4,238,100
Average strike price	\$ 27.11	\$ 11.42	\$ 6.43
Expected dividend	\$ 0.12	\$ 0.10	\$ 0.10
Expected volatility	34%	37%	20%
Risk-free interest rate	3.5%	3.3%	4.1%
Expected life of option	4 years	4 years	5 years
Expected forfeitures	15%	15%	10%
Weighted average grant date fair values	\$ 8.36	\$ 3.39	\$ 1.36

Executive Performance Share Unit (PSU), Deferred Share Unit (DSU), and Other Plans

Commencing in 2005, Cameco provides each executive officer an annual grant of PSUs in an amount determined by the board. Each PSU represents one phantom common share that entitles the participant to a payment of one Cameco common share purchased on the open market, or cash at the board's discretion, at the end of each three-year period if certain performance and vesting criteria have been met. The final value of the PSUs will be based on the value of Cameco common shares at the end of the three-year period and the number of PSUs that ultimately vest. Vesting of PSUs at the end of the three-year period will be based on total shareholder return over the three years, Cameco's ability to meet its annual cash flow from operations targets and whether the participating executive remains employed by Cameco at the end of the three-year vesting period. As of December 31, 2005, the total PSUs held by the executive was 196,200.

Cameco offers a deferred share unit plan to non-employee directors. A DSU is a notional unit that reflects the market value of a single common share of Cameco. In 2005, 60% of each director's annual retainer was paid in DSUs. In addition, on an annual basis directors can elect to receive the remaining 40% of their annual retainer and any additional fees in the form of DSUs. Each DSU fully vests upon award. The DSUs will be redeemed for cash upon a director leaving the board. The redemption amount will be based upon the weighted average of the closing prices of the common shares of Cameco on the TSX for the last 20 trading days prior to the redemption date multiplied by the number of DSUs held by the director. As of December 31, 2005, the total DSUs held by participating directors was 281,766 (2004 – 251,358).

Cameco makes annual grants of bonuses to eligible non-North American employees in the form of phantom stock options. Options under this plan are not physically granted; rather employees receive the equivalent value of shares in cash when exercised. Options granted under the phantom stock option plan have an award value equal to the closing price quoted on the TSX for the common shares of Cameco on the trading day prior to the date on which the option is granted. The options vest over three years and expire eight years from the date granted. As of December 31, 2005, the number of options held by participating employees was 443,760 (2004 – 577,800) with exercise prices ranging from \$4.81 to \$27.04 per share (2004 – \$4.81 to \$10.52) and a weighted average exercise price of \$12.12 (2004 – \$8.35).

Cameco has recognized the following amounts for these plans:

	2005	2004	2003
Performance share units	\$ 2,011	\$ –	\$ –
Deferred share units	4,089	1,896	1,032
Phantom stock options	8,537	4,376	3,058

18. Pension and Other Post-Retirement Benefits

Cameco maintains both defined benefit and defined contribution plans providing pension and post-retirement benefits to substantially all of its employees.

Under the defined pension benefit plans, Cameco provides benefits to retirees based on their length of service and final average earnings. The non-pension post-retirement plan covers such benefits as group life and supplemental health insurance, to eligible employees and their dependents. The costs related to the non-pension post-retirement plans are charged to earnings in the period during which the employment services are rendered. However, these future obligations are not funded.

The effective date for the most recent valuations for funding purposes on the pension benefit plans is January 1, 2003. The next planned effective date for valuation for funding purposes of the pension benefit plans is set to be January 1, 2006. The status of the defined plans is as follows:

(a) Accrued Benefit Obligation

	Pension Benefit Plans		Other Benefit Plans	
	2005	2004	2005	2004
Balance at beginning of year	\$ 16,478	\$ 15,380	\$ 4,460	\$ 3,389
Current service cost	803	806	226	186
Interest cost	849	1,031	271	271
Actuarial loss (gain)	–	–	2,364	(26)
Plan amendments	–	–	258	772
Benefits paid	(2,199)	(576)	(176)	(132)
Foreign exchange rate changes	(5)	(163)	–	–
	\$ 15,926	\$ 16,478	\$ 7,403	\$ 4,460

(b) Plan Assets

	Pension Benefit Plans	
	2005	2004
Fair value at beginning of year	\$ 23,201	\$ 21,758
Actual return on plan assets	1,337	885
Employer contributions	1,064	1,134
Benefits paid	(2,199)	(576)
Fair value at end of year	\$ 23,403	\$ 23,201

Plan assets consist of:

	Pension Benefit Plans	
	2005	2004
Asset Category (i)		
Equity securities	32%	32%
Bonds	20%	22%
Other (ii)	48%	46%
Total	100%	100%

- (i) The defined benefit plan assets contain no material amounts of related party assets at December 31, 2005 and 2004 respectively.
- (ii) Relates to the value of the refundable tax account held by the Canada Revenue Agency. The refundable total is approximately equal to half of the sum of the realized investment income plus employer contributions less half of the benefits paid by the plan.

(c) Funded Status Reconciliation

	Pension Benefit Plans		Other Benefit Plans	
	2005	2004	2005	2004
Fair value of plan assets	\$ 23,403	\$ 23,201	\$ -	\$ -
Accrued benefit obligation	15,926	16,478	7,403	4,460
Funded status of plans – surplus (deficit)	7,477	6,723	(7,403)	(4,460)
Unamortized net actuarial loss	1,249	1,740	-	-
Unamortized transitional obligation	963	1,669	-	-
Accrued benefit asset (liability) [notes 5, 8]	\$ 9,689	\$ 10,132	\$ (7,403)	\$ (4,460)

(d) Net Pension Expense

	2005	2004	2003
Current service cost	\$ 803	\$ 806	\$ 806
Interest cost	849	1,031	984
Actual return on plan assets	(1,337)	(885)	(711)
Actuarial gain	-	-	(483)
Balance prior to adjustments to recognize the long-term nature of employee future benefit costs	315	952	596
Difference between actual and expected return on plan assets in the year	491	60	110
Difference between actuarial loss recognized for year and actual actuarial (gain) on accrued benefit obligation for year	-	87	672
Amortization of transitional obligation	706	694	694
Defined benefit pension expense	1,512	1,793	2,072
Defined contribution pension expense	6,569	5,418	4,857
Net pension expense	\$ 8,081	\$ 7,211	\$ 6,929

	2005	2004	2003
Significant assumptions at December 31			
Discount rate	5.3%	6.5%	6.5%
Rate of compensation increase	4.5%	4.5%	4.5%
Long-term rate of return on assets	7.0%	7.0%	7.0%

(e) Other Post-Retirement Benefit Expense (Gain)

	2005	2004	2003
Current service cost	\$ 226	\$ 186	\$ 129
Interest cost	271	271	206
Actuarial (gain) loss	2,364	(26)	(952)
Plan amendment costs	258	772	—
Other post-retirement benefit expense (gain)	\$ 3,119	\$ 1,203	\$ (617)

	2005	2004	2003
Significant assumptions at December 31			
Discount rate	5.3%	6.5%	6.5%
Initial health care cost trend rate	11%	11%	11%
Cost trend rate declines to	6%	6%	6%
Year the rate reaches its final level	2011	2008	2008

(f) Pension and Other Post-Retirement Benefits Cash Payments

	2005	2004	2003
Employer contributions to funded pension plans	\$ 1,599	\$ 567	\$ 10,885
Benefits paid for unfunded benefit plans	176	132	86
Cash contributions to defined contribution plans	6,569	5,418	4,857
Total cash payments for employee future benefits	\$ 8,344	\$ 6,117	\$ 15,828

BPLP

BPLP has a funded registered pension plan and an unfunded supplemental pension plan. The funded plan is a contributory, defined benefit plan covering all employees up to the limits imposed by the Income Tax Act. The supplemental pension plan is a non-contributory, defined benefit plan covering all employees with respect to benefits that exceed the limits under the Income Tax Act. These plans are based on years of service and final average salary.

BPLP also has other post-retirement benefit and other post-employment benefit plans that provide for group life insurance, health care and long-term disability benefits. These plans are non-contributory.

The effective date for the most recent valuations for funding purposes on the pension benefit plans is January 1, 2004. The next planned effective date for valuation for funding purposes of the pension benefit plans is set to be January 1, 2007. The status of the defined plans is as follows:

(a) Funded Status Reconciliation

	Pension Benefit Plans 2005	Other Benefit Plans 2005
Fair value of plan assets	\$ 526,188	\$ —
Accrued benefit obligation	658,690	67,103
Funded status of plans – deficit	(132,502)	(67,103)
Unamortized net actuarial (gain) loss	150,621	(11,046)
Accrued benefit asset (liability) [notes 5, 8]	\$ 18,119	\$ (78,149)

(b) Pension Asset Categories

Asset Category (i)	Asset Allocation 2005	Target Allocation 2005
Equity securities	70%	70%
Fixed income	29%	30%
Cash	1%	—
Total	100%	100%

The assets of the pension plan are managed on a going concern basis subject to legislative restrictions. The plan's investment policy is to maximize returns within an acceptable risk tolerance. Pension assets are invested in a diversified manner with consideration given to the demographics of the plan participants. Rebalancing will take place on a monthly basis if outside of 3% of the target asset allocation.

(i) The defined benefit plan assets contain no material amounts of related party assets at December 31, 2005.

(c) Net Benefit Expense

	Pension Benefit Plans 2005	Other Benefit Plans 2005
Current service cost	\$ 3,099	\$ 555
Interest cost	5,301	550
Actual return on plan assets	(12,425)	—
Actuarial loss	18,412	1,935
Balance prior to adjustments to recognize the long-term nature of employee future benefit costs	14,387	3,040
Difference between actual and expected return on plan assets in the year	7,157	—
Difference between actuarial (gain) loss recognized and actual actuarial loss on accrued benefit obligation for year	(17,840)	(2,227)
Net benefit expense	\$ 3,704	\$ 813

(d) Assumptions

	Pension Benefit Plans 2005	Other Benefit Plans 2005
Significant assumptions at December 31		
Discount rate	5.3%	5.0%
Rate of compensation increase	3.5%	3.5%
Long-term rate of return on assets	7.3%	—
Assumed health care cost trend rates as at December 31		
Initial health care cost trend rate		10.0%
Cost trend rate declines to		4.5%
Year the rate reaches its final level		2011

(e) Pension and Other Post-Retirement Benefits Cash Payments

	2005
Employer contributions to funded pension plans	\$ —
Benefits paid for unfunded benefit plans	189
Total cash payments for employee future benefits	\$ 189

Benefits paid by the funded pension plan were \$800,000 for 2005. BPLP's expected contributions for the year ended December 31, 2006 are approximately \$22,200,000 for the pension benefit plans and \$1,500,000 for the other benefit plans.

The following are estimated future benefit payments, which reflect expected future service:

19. Goodwill

The acquisitions undertaken as part of the gold restructuring were accounted for using the purchase method whereby assets and liabilities assumed were recorded at their fair market value as of the date of acquisition [note 20]. The excess of the purchase price over such fair value was recorded as goodwill.

Cameco tests goodwill for possible impairment on an annual basis and at any other time if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. During the third quarter of 2005, Cameco completed the goodwill impairment test for all reporting units. The results of this test indicated there was no impairment.

20. Restructuring of the Gold Business

(a) Initial Public Offering

Under its initial public offering, Centerra issued 5,000,000 common shares to the public on June 30, 2004 for net proceeds of \$73,625,000 after deducting the underwriter's fees of 5%. On July 28, 2004, the underwriters to the initial public offering of Centerra exercised their over-allotment option to acquire an additional 1,875,000 shares for net proceeds of \$27,609,000.

(b) Acquisition of 66.7% Interest in KGC

Pursuant to the restructuring agreement between Cameco Gold Inc. (a wholly owned subsidiary of Cameco) and Kyrgyzaltyn, Centerra acquired an additional 66.7% interest in KGC, resulting in KGC becoming a wholly owned subsidiary of Centerra. The purchase price consisted of \$11,000,000 (US) in cash, the contribution of a promissory note receivable and common shares of Centerra. The acquisition was accounted for using the purchase method and the results of operations are included, as to 100%, in the consolidated financial statements from June 22, 2004. Previously, Cameco Gold Inc.'s 33.3% interest was accounted for by the proportionate consolidation method.

The values assigned to the net assets acquired were as follows:

Financed by:

(c) AGR Limited ("AGR")

(i) Acquisition of 56.2% Interest in AGR

On March 5, 2002, Cameco acquired a 52.2% interest in AGR. AGR is an Australia-based exploration company whose principal asset is a 95.0% interest in the Boro gold deposit located in Mongolia. The purchase price was financed with \$12,000,000 (US) in cash and the contribution of a neighbouring property. In exchange, AGR issued 240,000,000 shares to Cameco. The acquisition was accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statements from the effective date of the purchase.

The values assigned to the net assets acquired were as follows:

Cash and other working capital	\$ 13,845
Property, plant and equipment	27,054
Minority interest	(18,981)
Net assets acquired	\$ 21,918

Financed by:

Cash	\$ 19,562
Property, at carrying value	2,356
	\$ 21,918

Subsequent to the acquisition, Cameco provided an additional \$3,000,000 (US) for further exploration in the area in exchange for an incremental 4% interest in AGR (43,000,000 shares), increasing its total interest to 56.2% at December 31, 2002. Upon restructure, the 56.2% interest was transferred to Centerra.

(ii) Acquisition of 43.8% Interest in AGR

Effective June 30, 2004, Centerra acquired an additional 43.7% interest in AGR, resulting in Centerra's interest in AGR rising to 99.9%. The purchase price was satisfied through the issuance of Centerra common shares. The acquisition was accounted for as a step purchase and the results of operations are included as it was already a consolidated subsidiary. Subsequent to June 30, 2004, Centerra acquired the remaining 0.1% ownership interests in AGR, making it a wholly owned subsidiary of Centerra.

The values assigned to the net assets acquired were as follows:

Reduction of minority interest	\$ 18,915
Mark-to-market loss on hedge contracts	(7,946)
Property, plant and equipment	32,253
Goodwill [note 19]	35,573
Future tax asset	(1,971)
Net assets acquired	\$ 76,824

Financed by:

Common shares of Centerra	\$ 76,637
Cash	187
	\$ 76,824

(d) Exchange of KGC Subordinated Debt

Effective June 30, 2004, Centerra exchanged common shares and cash in exchange for the subordinated debt of KGC.

Fair value of exchange amount:

Common shares issued	\$ 47,449
Cash	18,975
	66,424
Net book value of subordinated debt acquired	(53,906)
Loss on exchange of debt	\$ 12,518

(e) Dilution Gain

The transactions noted above resulted in Cameco's interest in Centerra being diluted. As a result of this dilution, Cameco recorded a pre-tax gain of \$139,000,000 in its 2004 earnings.

21. Commitments and Contingencies

- (a) Cameco signed a toll-conversion agreement with British Nuclear Fuels plc (BNFL) to acquire uranium UF₆ conversion services from BNFL's Springfields plant in Lancashire, United Kingdom. Under the 10-year agreement, BNFL is obligated to annually convert a base quantity of five million kgU as UO₃ to UF₆ for Cameco.
- (b) A jury action was commenced by Oren Benton on November 28, 2000 in the State of Colorado, USA, against Cameco. The action claims in excess of \$200,000,000 (US) for breach of contract, breach of duty of good faith and fair dealing, and tortious interference with contractual relations and/or business expectations. Cameco's motion to dismiss the claim was granted by Senior Judge Daniel B. Sparr by order filed November 15, 2002 and Mr. Benton's claim was dismissed. Mr. Benton has unsuccessfully appealed this decision and his appeal to the Supreme Court of the United States was also denied.

On October 9, 2005, Oren Benton filed a claim in Regina, Saskatchewan. The claim is similar to the action he commenced in Colorado except it does not specify the amount of damages claimed. Management is of the opinion, after review of the facts with counsel, that the claim is completely without merit and that the outcome of this action will not have a material financial impact on Cameco's financial position, results of operations and liquidity.

- (c) Cameco's wholly owned subsidiary, Power Resources Inc. ("PRI"), and two unrelated third parties have been sued in the United States District Court for the District of Wyoming by Mountain West Mines Inc. ("MWM"). MWM claims that PRI and the other defendants owe it royalties on uranium mined in the Powder River Basin of Wyoming (which encompasses the Highland and Smith Ranch operations). PRI's exposure consists of unpaid royalties plus interest, and a continuing royalty on uranium from its operations within the Powder River Basin of approximately 4% of the selling price. MWM has submitted an expert report claiming that the amount of unpaid royalties is \$6,690,755 (US) for the period 1993 through 2003 and the amount of interest thereon is \$4,153,607 (US) as of January 7, 2005. The non-jury trial for this matter had originally been scheduled to start on June 20, 2005. The presiding judge had rescheduled the trial to August 5, 2005. On April 29, 2005, a hearing was held on MWM's motion that the Statement of Defense filed by PRI and the other defendants be struck, and the competing motion by PRI and the two other defendants that MWM's complaint be struck. The Magistrate Judge issued a report to the presiding judge on May 27, 2005 recommending that the defendant's motion to strike MWM's complaint be granted. The presiding judge endorsed the report of the Magistrate Judge and issued a judgment on September 15, 2005 dismissing MWM's claim and awarding the defendant's legal costs. The judgment is now being appealed.

Management is of the opinion, after review of the facts with counsel, that PRI will prevail and, therefore, this action will not have a material financial impact on Cameco's financial position, results of operations and liquidity.

- (d) On February 9, 2006, Cameco was served with a Statement of Claim issued out of the Ontario Superior Court of Justice by Rio Algom Limited ("Rio Algom"). Cameco is named in the Statement of Claim as a co-defendant with The Attorney General of Canada. In the Statement of Claim, Rio Algom is claiming against Cameco and The Attorney General of Canada \$75,000,000 in damages plus costs and pre-judgment interest. The claim relates to tailings management costs incurred by Rio Algom for the now defunct uranium mines in the Elliott Lake area of northern Ontario. Rio Algom claims it is entitled to recover these costs under uranium sales agreements entered into in the 1950s by Rio Algom's predecessors and Eldorado Nuclear Mining and Refining Ltd., a federal crown corporation. Rio Algom claims Cameco is now responsible for Eldorado Nuclear Mining and Refining Ltd.'s historical liabilities.

Management is of the opinion, after review of the facts with counsel, that the claim is completely without merit and that the outcome of this action will not have a material financial impact on Cameco's financial position, results of operations and liquidity.

- (e) In the fourth quarter, KGC entered into contracts to purchase plant and equipment for \$62,200,000 (US). These commitments are expected to be settled in 2006.
- (f) Annual supplemental rents of \$26,000,000 (subject to CPI) per operating reactor are payable by BPLP to OPG. Should the hourly annual average price of electricity in Ontario fall below \$30 per megawatt hour, the supplemental rent reduces to \$13,000,000 per operating reactor. In accordance with the Sublease Agreement, Bruce A L.P. will participate in its share of any adjustments to the supplemental rent.
- (g) Cameco, TransCanada and BPC have assumed the obligations to provide financial guarantees on behalf of BPLP. Cameco has provided the following financial assurances, with varying terms that range from 2004 to 2018:
 - i) Licensing assurances to Canadian Nuclear Safety Commission of up to \$133,300,000. At December 31, 2005, Cameco's actual exposure under these assurances was \$23,700,000.
 - ii) Guarantees to customers under power sales agreements of up to \$166,700,000. At December 31, 2005, Cameco's actual exposure under these guarantees was \$102,200,000.
 - iii) Termination payments to OPG pursuant to the lease agreement of \$58,300,000.

(h) Commitments

At December 31, 2005, Cameco's purchase commitments, the majority of which are fixed price uranium and conversion purchase arrangements, were as follows:

	(Millions (US))
2006	\$ 141
2007	126
2008	136
2009	126
2010	114
Thereafter	413
Total	\$ 1,056

22. Financial Instruments

The majority of revenues are derived from the sale of uranium products. Cameco's financial results are closely related to the long- and short-term market price of uranium sales and conversion services. Prices fluctuate and can be affected by demand for nuclear power, worldwide production and uranium inventory levels, and political and economic conditions in uranium producing and consuming countries. Revenue from gold operations is largely dependent on the market price of gold, which can be affected by political and economic factors, industry activity and the policies of central banks with respect to their levels of gold held as reserves. Financial results are also impacted by changes in foreign currency exchange rates and other operating risks.

To hedge risks associated with fluctuations in the market price for uranium, Cameco seeks to maintain a portfolio of uranium sales contracts with a variety of delivery dates and pricing mechanisms that provide a degree of protection from price volatility. Cameco enters into forward sales contracts to establish a price for future deliveries of US dollars. Net realized gains (losses) on contracts designated as hedges are recorded as deferred revenues (deferred charges) and recognized in earnings when the related hedged transactions occur.

Financial assets that are subject to credit risks include cash and securities, accounts receivable and commodity and currency instruments. Cameco mitigates credit risk on these financial assets by holding positions with a variety of large creditworthy institutions. Sales of uranium, with short payment terms, are made to customers that management believes are creditworthy.

Except as disclosed below, the fair market value of Cameco's financial assets and financial liabilities approximates net book value as a result of the short-term nature of the instrument or the variable interest rate associated with the instrument.

BPLP is exposed to changes in electricity prices associated with an open spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the price of electricity, BPLP enters into various energy and related sales contracts. These instruments have terms ranging from 2005 to 2008. At December 31, 2005, the mark-to-market loss on these sales contracts was \$37,708,000.

Currency

At December 31, 2005, Cameco had \$1,132,000,000 (US) in forward contracts at an average exchange rate of \$1.25 and €32,450,000 at an average exchange rate of \$1.20. The foreign currency contracts are scheduled for use as follows:

(Millions)	US	Rate	Cdn	Euro	Rate	US
2006	\$ 467	1.29	\$ 602	€ 9	1.19	\$11
2007	370	1.24	458	11	1.20	13
2008	195	1.21	236	7	1.20	8
2009	100	1.18	118	5	1.20	6
Total	\$1,132	1.25	\$1,414	€32	1.20	\$38

These positions consist entirely of forward sales contracts. The average exchange rate reflects the original spot prices at the time the contracts were entered into and includes deferred revenue. The realized exchange rate will depend on the forward premium (discount) that is earned (paid) as contracts are utilized.

At December 31, 2005, Cameco's net mark-to-market gain on these foreign currency instruments was \$36,600,000 (Cdn).

23. Per Share Amounts

Per share amounts have been calculated based on the weighted average number of common shares outstanding during the year net of shares held as security for employee loans to purchase such shares. The weighted average number of paid shares outstanding in 2005 was 347,863,822 (2004 – 342,889,722; 2003 – 336,717,342).

	2005	2004	2003
Basic earnings per share computation			
Net earnings	\$ 217,631	\$ 278,785	\$ 208,163
Weighted average common shares outstanding	347,864	342,890	336,718
Basic earnings per common share	\$ 0.63	\$ 0.81	\$ 0.62
 Diluted earnings per share computation			
Net earnings	\$ 217,631	\$ 278,785	\$ 208,163
Dilutive effect of:			
Convertible debentures	8,394	8,055	2,290
Net earnings, assuming dilution	\$ 226,025	\$ 286,840	\$ 210,453
 Weighted average common shares outstanding	347,864	342,890	336,718
Dilutive effect of:			
Convertible debentures	21,214	21,230	5,700
Stock options	4,614	4,338	3,894
Weighted average common shares outstanding, assuming dilution	373,692	368,458	346,312
Diluted earnings per common share	\$ 0.60	\$ 0.78	\$ 0.61

24. Segmented Information

Cameco has four reportable segments: uranium, conversion, power and gold. The uranium segment involves the exploration for, mining, milling, purchase and sale of uranium concentrate. The conversion segment involves the refining and conversion of uranium concentrate and the purchase and sale of conversion services. The power segment involves the generation and sale of electricity. The gold segment involves the exploration for mining, milling and sale of gold.

Cameco's reportable segments are strategic business units with different products, processes and marketing strategies. Accounting policies used in each segment are consistent with the policies outlined in the summary of significant accounting policies.

(a) Business Segments

2005 (Millions)	Uranium	Conversion	(i) Power	Gold	Subtotal	(i) Adjustments	(i) Total
Revenue	\$ 690.1	\$ 157.7	\$ 577.8	\$ 412.1	\$ 1,837.7	\$ (525.0)	\$ 1,312.7
Expenses							
Products and services sold	428.5	120.2	315.4	231.0	1,095.1	(281.1)	814.0
Depreciation, depletion and reclamation	102.1	9.8	76.6	73.9	262.4	(64.8)	197.6
Exploration	25.7	—	—	31.8	57.5	—	57.5
Research and development	—	2.4	—	—	2.4	—	2.4
Other	(79.5)	—	109.1	—	29.6	(13.3)	16.3
Gain on sale of assets	(0.2)	(0.1)	—	(1.2)	(1.5)	—	(1.5)
Earnings from Bruce Power						(165.8)	(165.8)
Non-segmented expenses							117.6
Earnings before income taxes and minority interest	213.5	25.4	76.7	76.6	392.2	—	274.6
Income tax expense							30.3
Minority interest							26.7
Net earnings							\$ 217.6
Assets	\$ 2,927.0	\$ 239.3	\$ 786.6	\$ 819.9	\$ 4,772.8	\$ —	\$ 4,772.8
Capital expenditures for the year	\$ 203.8	\$ 18.4	\$ 335.2	\$ 39.9	\$ 597.3	\$ (312.4)	\$ 284.9

2004 (Millions)	Uranium	Conversion	(i) Power	Gold	Subtotal	(i) Adjustments	(i) Total
Revenue	\$ 581.5	\$ 144.5	\$ 513.4	\$ 322.5	\$ 1,561.9	\$ (513.4)	\$ 1,048.5
Expenses							
Products and services sold	377.9	101.9	313.5	143.3	936.6	(313.5)	623.1
Depreciation, depletion and reclamation	99.5	9.6	67.8	71.1	248.0	(67.8)	180.2
Exploration	17.0	—	—	19.0	36.0	—	36.0
Research and development	—	1.9	—	—	1.9	—	1.9
Other	(1.8)	—	11.4	(123.5)	(113.9)	(11.4)	(125.3)
Gain on sale of assets	(1.7)	—	—	(0.3)	(2.0)	—	(2.0)
Earnings from Bruce Power						(120.7)	(120.7)
Non-segmented expenses							75.7
Earnings before income taxes and minority interest	90.6	31.1	120.7	212.9	455.3	—	379.6
Income tax expense							73.3
Minority interest							27.5
Net earnings							\$ 278.8
Assets	\$ 2,455.0	\$ 206.4	\$ 1,079.6	\$ 742.1	\$ 4,483.1	\$ (431.0)	\$ 4,052.1
Capital expenditures for the year	\$ 122.5	\$ 14.0	\$ 114.3	\$ 11.8	\$ 262.6	\$ (114.3)	\$ 148.3

2003 (Millions)	Uranium	Conversion	(i) Power	Gold	Subtotal	(i) Adjustments	Total
Revenue	\$ 570.3	\$ 142.4	\$ 364.7	\$ 114.2	\$ 1,191.6	\$ (364.7)	\$ 826.9
Expenses							
Products and services sold	394.2	91.8	221.0	52.2	759.2	(221.0)	538.2
Depreciation, depletion and reclamation	93.5	10.9	34.6	21.5	160.5	(34.6)	125.9
Exploration	13.2	—	—	8.7	21.9	—	21.9
Research and development	—	1.7	—	—	1.7	—	1.7
Other	(0.4)	—	1.2	—	0.8	(1.2)	(0.4)
Earnings from Bruce Power						(107.9)	(107.9)
Non-segmented expenses							64.1
Earnings before income taxes and minority interest	69.8	38.0	107.9	31.8	247.5	—	183.4
Income tax recovery							(21.4)
Minority interest							(3.4)
Net earnings							\$ 208.2
Assets	\$ 2,365.6	\$ 180.0	\$ 992.3	\$ 347.4	\$ 3,885.3	\$ (454.1)	\$ 3,431.2
Capital expenditures for the year	\$ 72.5	\$ 6.0	\$ 156.5	\$ 88.3	\$ 323.3	\$ (156.5)	\$ 166.8

(i) Consistent with the presentation of financial information for internal management purposes, Cameco's pro rata share of BPLP's financial results have been presented as a separate segment. In accordance with GAAP, this investment was accounted for by the equity method of accounting in these consolidated financial statements to October 31, 2005 [note 16] and the associated revenues and expenses prior to the restructuring are eliminated in the adjustments column.

(b) Geographic Segments

	2005	2004	2003
Revenue from products and services			
Canada – domestic	\$ 56.2	\$ 77.4	\$ 40.2
– export	267.7	244.0	337.5
United States	576.7	404.6	335.0
Kyrgyzstan	260.5	207.8	114.2
Mongolia	151.6	114.7	—
	\$ 1,312.7	\$ 1,048.5	\$ 826.9
Assets			
Canada	\$ 3,767.5	\$ 3,089.2	\$ 2,882.4
United States	302.0	246.3	233.1
Kyrgyzstan	474.7	494.5	163.7
Mongolia	188.4	193.3	130.0
Kazakhstan	40.2	28.8	22.0
	\$ 4,772.8	\$ 4,052.1	\$ 3,431.2

(c) Major Customers

Cameco relies on a small number of customers to purchase a significant portion of its uranium concentrates and uranium conversion services. During 2005, revenues from one customer of Cameco's uranium and conversion segments represented approximately \$134,600,000 (16%) of Cameco's total revenues. In 2004, revenues from one customer of Cameco's uranium and conversion segments represented approximately \$86,500,000 (12%) of Cameco's total revenues. In 2003, revenues from one customer of Cameco's uranium and conversion segments represented approximately \$97,000,000 (14%) of total revenue. As customers are relatively few in number, accounts receivable from any individual customer may periodically exceed 10% of accounts receivable depending on delivery schedules.

During 2005, electricity revenues from one customer of BPLP represented approximately 11% of BPLP's total revenues.

25. Generally Accepted Accounting Principles in Canada and the United States

The consolidated financial statements of Cameco are expressed in Canadian dollars in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with accounting principles generally accepted in the United States (US GAAP).

(a) Reconciliation of earnings in accordance with Canadian GAAP to earnings determined in accordance with US GAAP:

	2005	2004	2003
Net earnings under Canadian GAAP	\$ 217,631	\$ 278,785	\$ 208,163
Add (deduct) adjustments for (d):			
Depreciation and depletion (i)	–	1,618	2,579
Mineral property costs (ii)	(1,760)	11,028	(7,218)
Pre-operating costs (iii)	1,512	3,658	1,512
Hedges and derivative instruments (iv)	(1,765)	(12,104)	12,304
Earnings from BPLP (iii) (iv)	25,407	2,015	(13,938)
Income tax effect of adjustments	(7,785)	(1,808)	2,034
Net earnings before cumulative effect of a change in accounting policy	233,240	283,192	205,436
Cumulative effect of a change in accounting policy (vi)	–	–	10,683
Net earnings under US GAAP	233,240	283,192	216,119
Hedges and derivative instruments (iv)	(36,748)	32,691	29,508
Foreign currency translation adjustments (v)	(12,875)	(27,266)	(32,309)
Unrealized gain (loss) on available-for-sale securities (vii)	(60,606)	36,849	21,410
Comprehensive income under US GAAP	\$ 123,011	\$ 325,466	\$ 234,728
Basic net earnings per share under US GAAP*	\$ 0.67	\$ 0.83	\$ 0.64
Diluted earnings per share under US GAAP*	\$ 0.65	\$ 0.79	\$ 0.63

*Per share amounts for 2004 and 2003 have been restated to reflect the stock split [note 9].

(b) Comparison of balance sheet items determined in accordance with Canadian GAAP to balance sheet items determined in accordance with US GAAP:

(i) Balance Sheets

	2005	2004	
	Canadian GAAP	US GAAP	Canadian GAAP
Current assets	\$ 1,524,459	\$ 1,399,575	\$ 851,240
Property, plant and equipment	2,871,337	2,261,614	2,281,418
Long-term receivables, investments and other	196,747	462,437	732,262
Goodwill	180,232	180,232	187,184
Total assets	\$ 4,772,775	\$ 4,303,858	\$ 4,052,104
Current liabilities	\$ 609,048	\$ 518,005	\$ 296,319
Long-term debt	702,109	523,149	518,603
Provision for reclamation	167,568	167,568	166,941
Other liabilities	124,780	35,614	31,086
Deferred income taxes	444,942	419,664	533,024
	2,048,447	1,664,000	1,545,973
Minority interest	360,697	360,697	345,611
Shareholders' equity			
Share capital	779,035	779,035	750,559
Contributed surplus	523,300	492,827	511,674
Retained earnings	1,114,693	1,042,373	938,809
Accumulated other comprehensive income			
- cumulative translation account (v)	(53,397)	(32,175)	(40,522)
- available-for-sale securities (vii)	–	107	–
- hedges and derivative instruments (iv)	–	(3,006)	–
	2,363,631	2,279,161	2,160,520
Total liabilities and shareholders' equity	\$ 4,772,775	\$ 4,303,858	\$ 4,052,104
			\$ 4,066,099

(ii) Components of accounts payable and accrued liabilities are as follows:

	2005		2004	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Accounts payable	\$ 217,360	\$ 126,320	\$ 137,901	\$ 137,901
Taxes and royalties payable	88,539	88,539	55,258	55,258
Accrued liabilities	44,500	44,500	38,538	38,538
Total accounts payable and accrued liabilities	\$ 350,399	\$ 259,359	\$ 231,697	\$ 231,697

(c) The effects of these adjustments would result in the consolidated statements of cash flows reporting the following under US GAAP:

	2005	2004	2003
Cash provided by operations	\$ 283,176	\$ 239,070	\$ 242,538
Cash provided by (used in) investing	\$ 36,742	\$ (171,715)	\$ (455,988)
Cash provided by financing	\$ 101,202	\$ 54,014	\$ 251,321

(d) A description of certain significant differences between Canadian GAAP and US GAAP follows:

(i) **Writedown of Mineral Properties**

Under both Canadian and US GAAP, property, plant and equipment must be assessed for potential impairment. As of 2003, there was no longer any difference in the calculation of an impairment loss between Canadian and US GAAP. However, as a result of previous differences in the amounts of impairment losses recognized under US and Canadian GAAP, there is a difference in the amount of depreciation and depletion charged to earnings.

(ii) **Mineral Property Costs**

Consistent with Canadian GAAP, Cameco defers costs related to mineral properties once the decision to proceed to development has been made. Under US GAAP, these costs are expensed until such time as a final feasibility study has confirmed the existence of a commercially mineable deposit. In 2005 and 2004, there were no differences in accounting for mineral property development costs. In 2003, \$7,218,000 was expensed under US GAAP. In addition, since the carrying value of the mineral property is different under US GAAP, interest capitalization is impacted. Accordingly, an adjustment has been made to reduce capitalized interest by \$1,760,000 (2004 – \$1,614,000; 2003 – nil).

Prior to 2004, the mineral property costs expensed under US GAAP included a provision for loan impairment totalling \$12,642,000. Due to the recognition of reserves and the completion of a final feasibility study, Cameco was able to demonstrate the loan to be recoverable and reversed the impairment provision in 2004.

(iii) **Pre-Operating Costs**

Under Canadian GAAP, pre-operating costs incurred during the commissioning phase of a new project are deferred until commercial production levels are achieved, subject to time limitations. Under US GAAP, such costs are expensed as incurred as required by AICPA Statement of Position 98-5, Reporting on the Cost of Start-Up Activities. McArthur River commercial production commenced March 1, 2000 for US GAAP and November 1, 2000 for Canadian GAAP. Differences in capitalized costs are amortized over the estimated lives of the assets to which they relate.

During 2004, \$1,048,000 (2003 – \$17,917,000) of costs related to the restart of two nuclear reactors at BPLP were considered to be start-up costs required to be expensed under US GAAP. As a result of expensing these start-up costs, there is a difference in the capital costs recognized under Canadian and US GAAP. Accordingly, an adjustment has been made to reduce the amount of depreciation charged to earnings by \$2,329,000 (2004 – \$2,445,000; 2003 – nil).

In 2005, the BPLP agreement was restructured resulting in the disposition of certain assets and recognition of a loss. Under US GAAP, the carrying value of these assets was less than under Canadian GAAP. Accordingly, the pre-tax loss has been reduced by \$22,820,000.

(iv) Hedges and Derivative Instruments

Under US GAAP, all derivative instruments are recognized on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met to qualify as a cash flow hedge. Changes in the fair value of derivatives that qualify as fair value hedges, are recognized in earnings in the same period as the hedged items. Changes in the fair value of the effective portion of a cash flow hedge are deferred in other comprehensive income with any ineffectiveness of the hedge recognized immediately on the statement of earnings.

Prior to 2004, forward points were included in the assessment of hedge effectiveness for Canadian GAAP purposes and excluded for US GAAP purposes. The cumulative impact of this difference was \$16,042,000 at December 31, 2003 of which \$1,765,000 was recognized in 2005 (2004 – \$12,104,000).

For amounts included in the balance sheet as accumulated other comprehensive income as at December 31, 2005, a gain of \$21,883,000 (after tax) relates to the hedging of foreign exchange risk. Of these amounts, \$8,794,000 (after tax) would be recorded in earnings during 2006 if market conditions remained unchanged. The impact on other comprehensive income for 2005 is a loss of \$14,583,000 (2004 – gain of \$38,814,000; 2003 – gain of \$26,107,000).

BPLP also has certain derivative instruments that qualify for hedge accounting. For amounts included in the balance sheet as accumulated other comprehensive income as at December 31, 2005, a loss of \$24,887,000 (after tax) relates to the hedging of electricity price risk. Of this amount, \$16,520,000 (after tax) would be recorded in earnings for 2006 if market conditions remained unchanged. The impact on other comprehensive income for hedge accounting for 2005 is a loss of \$22,165,000 (2004 – loss of \$6,123,000; 2003 – gain of \$3,401,000).

Prior to August 2003, certain BPLP energy contracts did not qualify for hedge accounting under US GAAP as the documentation required for hedge accounting was not contemplated at the time of entering into the contracts. Accordingly, changes in the fair value of these contracts were charged to US GAAP earnings. Under Canadian GAAP, hedge accounting was applied prior to August 2003, resulting in differences to be recognized in future periods. As a result of this past difference in hedge accounting treatment, \$259,000 was recognized in earnings in 2005 (2004 – \$618,000; 2003 – \$3,979,000).

(v) Cumulative Translation Account

Under US GAAP, exchange gains and losses arising from the translation of our net investments in foreign operations are included in comprehensive income. In addition, exchange gains and losses of any foreign currency debt designated as hedges of those net investments are included in comprehensive income. Cumulative amounts are included in accumulated other comprehensive income on the balance sheet.

(vi) Cumulative Effect of a Change in Accounting Policy

In 2001, the FASB issued Statement 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and use of the asset. Statement 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses.

For Canadian GAAP, the effect of the change in policy on the balance sheet at December 31, 2002 is to increase property, plant and equipment by \$22,827,000, future income taxes by \$7,646,000, liabilities by \$4,498,000 and opening retained earnings by \$10,683,000. Under US GAAP, the adjustment of \$10,683,000 is recorded in income in 2003 as a cumulative effect of a change in accounting policy.

(vii) Available-for-Sale Securities

Under Canadian GAAP, portfolio investments are accounted for using the cost method. Under US GAAP, portfolio investments classified as available-for-sale securities are carried at market values with unrealized gains or losses reflected as a separate component of shareholders' equity and included in comprehensive income. Cameco's investments in Energy Resources of Australia Ltd, Batavia Mining Ltd. (formerly Menzies Gold NL), Tenke Mining Corp., Maudore Minerals Ltd. (formerly Maude Lake Exploration Ltd.), and Golden Band Resources Inc. are classified as available for sale. The investment in Energy Resources of Australia Ltd was sold in 2005 and the investments in Batavia Mining Ltd. and Tenke Mining Corp. were sold in 2004. The fair market value of the owned investments at December 31, 2005 is \$887,000 (2004 – \$79,785,000). The cumulative unrealized gain at December 31, 2005 is \$107,000 (2004 – \$60,713,000).

(e) Investment in BPLP

Under Canadian GAAP, Cameco accounts for its interest in BPLP by the proportionate consolidation method. Under US GAAP, Cameco is required to equity account for its investment and record in earnings its proportionate share of their net earnings measured in accordance with US GAAP.

(f) Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, establishes financial accounting and reporting standards for stock-based employee compensation plans. This statement defines a fair value based method of accounting for employee stock options. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, which is similar to the method applied under Canadian GAAP and followed by Cameco prior to 2003. For periods prior to adoption, companies that continue to follow the intrinsic value based method must disclose pro forma earnings and earnings per share information under the fair value method.

Cameco adopted the fair value method of accounting for employee stock options with retroactive effect to January 1, 2003. Pursuant to transitional rules related to accounting for stock-based compensation under Canadian and US GAAP, Cameco chose to record compensation expense for all employee stock options granted on or after January 1, 2003 with a corresponding increase to contributed surplus. Compensation expense for options granted during 2003 and beyond is determined based on the estimated fair values at the time of grant, the cost of which is recognized over the vesting periods of the respective options.

Cameco has applied the pro forma disclosure provisions of the standard to awards granted prior to January 1, 2003. The pro forma net earnings, basic and diluted earnings per share after giving effect to the grant of these options are:

	2005	2004	2003
Net earnings for the year in accordance with US GAAP as calculated above	\$ 233,240	\$ 283,192	\$ 216,119
Effect of recording compensation expense under stock options plans	(77)	(604)	(2,027)
Pro forma net earnings after application of SFAS 123	\$ 233,163	\$ 282,588	\$ 214,092
Pro forma basic net earnings per common share after application of SFAS 123*	\$ 0.67	\$ 0.82	\$ 0.64
Pro forma diluted net earnings per common share after application of SFAS 123*	\$ 0.65	\$ 0.79	\$ 0.62

*Per share amounts for 2004 and 2003 have been restated to reflect the stock split [note 9].

In calculating the foregoing pro forma amounts, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001
Dividend	\$ 0.09	\$ 0.09
Expected volatility	20.0%	39.6%
Risk-free interest rate	5.0%	5.5%
Expected life of option	5 years	8 years
Expected forfeitures	17.0%	20.0%
Weighted average grant date fair values	\$ 1.81	\$ 2.27

(g) New Accounting Pronouncements

In March 2005, the FASB issued Financial Interpretation 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years

ending after December 15, 2005. The adoption of this statement did not have a material impact on Cameco's consolidated financial statements.

In March 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry. In the mining industry, companies may be required to remove overburden and other mine waste materials to access mineral deposits. The EITF concluded that the costs of removing overburden and waste materials, often referred to as "stripping costs" incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. Issue No. 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005, with early adoption permitted. Cameco does not expect the adoption of this statement will have a material impact on its consolidated financial statements.

In June 2005, the FASB issued Statement 154, Accounting Changes and Error Corrections, which replaces APB Opinion 20 and FASB Statement 3. Statement 154 changes the requirements for the accounting and reporting of a change in accounting principle. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of the new accounting principle in net income of the period of the change. Statement 154 now requires retrospective application of changes in accounting principle to prior period financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Statement is effective for fiscal years beginning after December 15, 2005. Cameco does not expect the adoption of this statement will have a material impact on its consolidated financial statements.

26. Subsequent Events

- (a) On February 1, 2006, Cameco announced it had completed the acquisition of a 100% interest in Zircatec Precision Industries, Inc. for \$108,000,000, subject to closing adjustments. Zircatec's primary business is manufacturing nuclear fuel bundles for sale to companies that generate electricity for Candu reactors. Cameco used cash to fund this acquisition.
- (b) On January 31, 2006, the board of directors of Cameco approved a split of the company's outstanding common shares on a two-for-one basis. The stock split was effected in the form of a stock dividend of one additional common share for each share owned by shareholders of record at the close of business on February 17, 2006.

27. Comparative Figures

Certain prior year balances have been reclassified to conform to the current financial statement presentation.

Summary of Significant Accounting Policies

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles and, except as described in note 25, conform in all material respects with accounting principles generally accepted in the United States. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. The most significant estimates are related to the lives and recoverability of mineral properties, provisions for decommissioning and reclamation of assets, future income taxes, financial instruments and mineral reserves. Actual results could differ from these estimates. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

Consolidation Principles

The consolidated financial statements include the accounts of Cameco and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method. Under this method, Cameco includes in its accounts its proportionate share of assets, liabilities, revenues and expenses.

Cash

Cash consists of balances with financial institutions and investments in money market instruments which have a term to maturity of three months or less at time of purchase.

Inventories

Inventories of broken ore, uranium concentrates and refined and converted products are valued at the lower of average cost and net realizable value. Average cost includes direct materials, direct labour, operational overhead expenses and depreciation, depletion and reclamation.

Supplies

Consumable supplies and spares are valued at the lower of cost or replacement value.

Investments

Investments in associated companies over which Cameco has the ability to exercise significant influence are accounted for by the equity method. Under this method, Cameco includes in earnings its share of earnings or losses of the associated company. Portfolio investments are carried at cost or at cost less amounts written off to reflect a decline in value that is other than temporary.

Property, Plant and Equipment

Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current

earnings. Maintenance and repair expenditures are charged to cost of production.

Non-Producing Properties

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets.

The carrying values of non-producing properties are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

Property Evaluations

Cameco reviews the carrying values of its properties when changes in circumstances indicate that those carrying values may not be recoverable. Estimated future net cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. An impairment loss is recognized when the carrying value of an asset held for use exceeds the sum of undiscounted future net cash flows. An impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value.

Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. Goodwill is assigned to assets and is not amortized.

Future Income Taxes

Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period which includes the enactment date. Future income

tax assets are recorded in the financial statements if realization is considered more likely than not.

Capitalization of Interest

Interest is capitalized on expenditures related to construction or development projects actively being prepared for their intended use. Capitalization is discontinued when the asset enters commercial operation or development ceases.

Depreciation and Depletion

Conversion services assets, mine buildings, equipment and mineral properties are depreciated or depleted according to the unit-of-production method. This method allocates the costs of these assets to each accounting period. For conversion services, the amount of depreciation is measured by the portion of the facilities' total estimated lifetime production that is produced in that period. For mining, the amount of depreciation or depletion is measured by the portion of the mines' economically recoverable proven and probable ore reserves which are recovered during the period.

Other assets are depreciated according to the straight-line method based on estimated useful lives, which generally range from three to 10 years.

Nuclear generating plants are depreciated according to the straight-line method based on the lower of useful life and remaining lease term.

Research and Development and Exploration Costs

Expenditures for applied research and technology related to the products and processes of Cameco and expenditures for geological exploration programs are charged against earnings as incurred.

Environmental Protection and Reclamation Costs

The fair value of the liability for an asset retirement obligation is recognized in the period incurred. The fair value is added to the carrying amount of the associated asset and depreciated over the asset's useful life. The liability is accreted over time through periodic charges to earnings and it is reduced by actual costs of decommissioning and reclamation. Cameco's estimates of reclamation costs could change as a result of changes in regulatory requirements and cost estimates. Expenditures relating to ongoing environmental programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings.

Employee Future Benefits

Cameco accrues its obligations under employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are measured at fair value. Cameco measures the plan assets and the accrued benefit obligation on December 31 each year.

On both the Cameco-specific and BPLP-specific defined benefit pension plans, past service costs arising from plan amendments are amortized on a straight-line basis over the expected average service life of the plan participants. Net actuarial gains, which exceed 10% of the greater of the accrued benefit obligation and the fair value of plan assets, are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

On the Cameco-specific retirement benefit plans that do not vest or accumulate, past service costs arising from plan amendments, and net actuarial gains and losses, are recognized in the period they arise. Conversely, the BPLP-specific amounts are amortized on a straight-line basis over the expected average service life of the plan participants.

Stock-Based Compensation

Cameco has four stock-based compensation plans that are described in note 17. These encompass a stock option plan, a preferred share unit plan, a deferred share unit plan and a phantom stock option plan.

Options granted under the stock option plan on or after January 1, 2003 are accounted for using the fair value method. Under this method, the compensation cost of options granted is measured at estimated fair value at the grant date and recognized over the vesting period. For options granted prior to January 1, 2003, no compensation expense was recognized when the stock options were granted. Any consideration received on exercise of stock options is credited to share capital.

Deferred share units, preferred share units and phantom stock options are amortized over their vesting periods and re-measured at each reporting period, until settlement, using the quoted market value.

Revenue Recognition

Cameco supplies uranium concentrates and uranium conversion services to utility customers. Third-party fabricators process Cameco's products into fuel for use in nuclear reactors.

Cameco recognizes revenue on the sale of its nuclear products when persuasive evidence of an arrangement exists, delivery occurs, the related revenue is fixed or determinable and collection is reasonably assured.

Cameco has three types of sales arrangements with its customers in its uranium and conversion businesses. These arrangements include uranium supply, toll conversion services and conversion supply (converted uranium), which is a combination of uranium supply and toll conversion services.

Uranium Supply

In a uranium supply arrangement, Cameco is contractually obligated to provide uranium concentrates to its customers. Cameco-owned uranium is physically delivered to conversion facilities ("Converters") where the Converter will credit Cameco's account for the volume of accepted uranium. Based on delivery terms in a sales contract with its customer, Cameco instructs the Converter to transfer title of a contractually-specified quantity of uranium to the

customer's account at the Converter's facility. At this point, Cameco invoices the customer and recognizes revenue for the uranium supply.

Toll Conversion Services

In a toll conversion arrangement, Cameco is contractually obligated to convert customer-owned uranium to a chemical state suitable for enrichment. The customer delivers uranium to Cameco's conversion facilities. Once conversion is complete, Cameco physically delivers converted uranium to enrichment facilities ("Enrichers") where the Enricher will credit Cameco's account for the volume of accepted processed uranium. Based on delivery terms in a sales contract with its customer, Cameco instructs the Enricher to transfer title of a contractually-specified quantity of converted uranium to the customer's account at the Enricher's facility. At this point, Cameco invoices the customer and recognizes revenue for the toll conversion services.

Conversion Supply

In a conversion supply arrangement, Cameco is contractually obligated to provide uranium concentrates and conversion services to its customers. Cameco-owned uranium is converted and physically delivered to an Enricher as described in the toll conversion services arrangement. Based on delivery terms in a sales contract with its customer, Cameco instructs the Enricher to transfer title of a contractually-specified quantity of converted uranium to the customer's account at the Enricher's facility. At this point, Cameco invoices the customer and recognizes revenue for both the uranium supplied and the conversion service provided. It is rare for Cameco to enter into back-to-back arrangements for uranium supply and toll conversion services. However, in the event that a customer requires such an arrangement, revenue from uranium supply is deferred until the toll conversion service has been rendered.

Cameco records revenue on the sale of gold when title passes and delivery is effected.

Electricity sales are recognized at the time of generation, and delivery to the purchasing utility is metered at the point of interconnection with the transmission system. Revenues are recognized on an accrual basis, which includes an estimate of the value of electricity produced during the period but not yet billed.

Amortization of Financing Costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the issues to which they relate.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end rates of exchange. Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at rates in effect at the time of the transactions. The applicable exchange gains and losses arising on these transactions are reflected in earnings.

The United States dollar is considered the functional currency of most of Cameco's uranium and gold operations outside of

Canada. The financial statements of these operations are translated into Canadian dollars using the current rate method whereby all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange prevailing during the year. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on Cameco's net investment in these foreign operations, are recorded in the cumulative translation account component of shareholders' equity. Exchange gains or losses arising from the translation of foreign debt and preferred securities designated as hedges of a net investment in foreign operations are also recorded in the cumulative translation account component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in Cameco's net investment in such operations.

Derivative Financial Instruments and Hedging Transactions

Cameco uses derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Cameco formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Cameco also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Gains and losses related to hedging items are deferred and recognized in the same period as the corresponding hedged items. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date. In the event a hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

BPLP uses various energy and related sales contracts to reduce exposure to fluctuations in the price of electricity in Ontario. Gains or losses on hedging instruments are recognized in earnings over the term of the contract when the underlying hedged transactions occur. All energy contracts are designated as hedges of BPLP's electricity sales.

Earnings Per Share

Earnings per share are calculated using the weighted average number of paid common shares outstanding.

The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share.



Glossary

Baseload

The minimum amount of electric power delivered or required over a given period of time at a steady rate.

Candu

Canada, Deuterium, Uranium. Canadian designed and built pressure-tube nuclear reactor which uses natural uranium as fuel and heavy water (deuterium oxide) as the moderator.

Capacity Factor

The ratio of the electricity generated by a power plant compared to the electricity that could have been produced during a specific period if the plant had operated continuously at full power.

CNSC

Canadian Nuclear Safety Commission

Conversion

The chemical process that changes U_3O_8 to UF_6 in preparation for enrichment.

Conversion Factors

Weights and measures are indicated in the unit most commonly used in specific areas of the industry. These are noted with * and conversion factors are provided below.

Take This:	Do This	To Obtain This
t	$\times 1.10$	$= T$
*T	$\times 0.90$	$= t$
*oz/T	$\times 34.28$	$= g/t$
*lb U_3O_8	$\div 2599.8$	$= tU$
tU	$\times 2599.8$	$= lb U_3O_8$
*% U_3O_8	$\div 1.18$	$= \% U$

Decommissioning

All stages following the shutdown of a nuclear facility, from final closure through the removal of radioactivity from the site, including physical dismantling and decontamination of all non-reusable facilities and equipment.

Electricity Measurements

$1kW \times 1000 = 1MW \times 1000 = 1GW \times 1000 = 1TW$

Kilowatt (kW): kilowatt-hour (kWh)

A kilowatt is a unit of power representing the rate at which energy is used or produced. One kilowatt-hour is a unit of energy, and represents one hour of electricity consumption at a constant rate of 1kW.

Megawatt (MW): megawatt-hour (MWh)

A megawatt equals 1000 kW. One megawatt-hour represents one hour of electricity consumption at a constant rate of 1MW.

Gigawatt (GW): gigawatt-hour (GWh)

A gigawatt equals 1000 MW. One gigawatt-hour represents one hour of electricity consumed at a constant rate of 1GW.

Terawatt (TW): terawatt-hour (TWh)

One terawatt equals 1000 GW. One terawatt-hour represents one hour of electricity consumption at a constant rate of 1TW.

Enriched Uranium

Uranium in which the content of the isotope uranium-235 has been increased above its natural value of 0.7% by weight. Typical low-enriched uranium for commercial power reactors is enriched in uranium-235 to the range of 3% to 5%. In highly enriched uranium, the uranium-235 has been increased to 20% or more.

In Situ Leaching

A mining method that involves pumping a solution down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to surface where the uranium is recovered from the solution.

Light Water Reactor

A thermal reactor using ordinary water both as a moderator and as a coolant with enriched uranium as fuel.

Long-Term Price

The price for product sold or purchased under contract for multiple deliveries beginning after one year.

Ounce (oz)

All ounces in this report are troy ounces.

Outage

A temporary suspension of electricity generation at a power plant.

Radiation

Radiation occurs naturally. It is a type of energy that travels through space in the form of waves, or particles, which give up all or part of their energy on contact with matter. Radiation can take the form of alpha or beta particles, X-rays or gamma rays, or neutrons.

Mineral Reserves

A concentration of minerals that is or could be economically mined now, as demonstrated by a feasibility study. (See page 59 for exact definition.)

Mineral Resources

A concentration of minerals that may have a chance to become economically mineable in the future. (See page 59 for exact definition.)

Spot Market Price

Price for product sold or purchased in the spot market rather than under a long-term contract. Spot market transactions are generally for delivery within one year.

t

Tonne (metric ton)

T

Ton (short ton)

UO_2

Uranium dioxide. Converted from UO_3 at Cameco's Port Hope plant, then compressed to pellets and sintered by fuel fabricators to make fuel for Candu reactors.

UO_3

Uranium trioxide. An intermediate product produced at Cameco's Blind River refinery and used as feed to produce UO_2 and UF_6 at Cameco's Port Hope conversion plants.

U_3O_8

Triuranium octoxide. At Cameco operations, it is in the form of concentrate, often called yellowcake.

UF_6

Uranium hexafluoride. Converted from UO_3 at Cameco's Port Hope plant. Following enrichment, UF_6 is converted to enriched UO_2 suitable for fabrication into fuel for light-water reactors.

Uranium

Chemical element with atomic number 92 and atomic symbol U, which has three natural isotopes: U234, U235 and U238. The only naturally occurring fissile nuclide is U235, a quality that is exploited as a source of energy. Natural uranium contains 0.7% of this isotope.

Western World Market

Western world includes Argentina, Australia, Belgium, Brazil, Canada, Czech Republic, Finland, France, Gabon, Germany, Hungary, India, Indonesia, Japan, Lithuania, Mexico, Namibia, The Netherlands, Niger, Pakistan, Philippines, Portugal, Romania, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom and the United States.

Directors



Victor J. Zaleschuk ^{2,3,4}

Calgary, Alberta

Chair

President and CEO of Nexen, a large
Calgary-based oil and gas company,
from 1997 to 2001.



John S. Auston ^{2,3}

West Vancouver, British Columbia

President and CEO of Ashton Mining
of Canada from 1996 to 2000 and
President and CEO of Granges, another
mining firm, from 1993 to 1995.



James R. Curtiss ^{4,5}

Brookeville, Maryland, USA

Partner in the Washington, D.C. law
firm of Winston & Strawn and a
Commissioner on the U.S. Nuclear
Regulatory Commission from 1988
to 1993.



George S. Dembroski ^{3,4}

Toronto, Ontario

Vice-Chairman and a Director of RBC
Dominion Securities, an investment
dealer, from 1981 to 1998.



Oyvind Hushovd ^{1,2,4}

Kristiansand S., Norway

Chair of Gabriel Resources from 2003
to 2006 (Chair and CEO from 2003
to 2005), President and CEO of
Falconbridge Limited from 1996
to 2002.



Dr. J.W. George Ivany ^{1,3,4}

Kelowna, British Columbia

President and Vice-Chancellor of the
University of Saskatchewan from 1989
to 1999.



A. Neil McMillan ^{1,2,5}

Saskatoon, Saskatchewan

CEO of Claude Resources, a mining firm
based in Saskatchewan, since 2004,
President since 1995.



Robert W. Peterson ^{1,4,5}

Regina, Saskatchewan

Senator, appointed to Senate of
Canada in 2005. President and COO of
Denro Holdings, a Saskatchewan-based
property development and financial
management company, since 1994.

Committees:

¹Audit ²Reserves Oversight ³Nominating, Corporate Governance and Risk ⁴Human Resources and Compensation

⁵Safety, Health and Environment

Learn more about Cameco's governance

See our management proxy circular for more information on Cameco's governance practices. Cameco is in compliance with the corporate governance standards applicable to Canadian TSX listed corporations, the US Sarbanes-Oxley Act, and the NYSE corporate governance standards applicable to it as a foreign private issuer with the SEC. Any significant differences between Cameco's corporate disclosure practices and those applicable to US issuers listed on the NYSE are discussed in this disclosure. The circular is available in hard copy or electronically from the governance section of our website at cameco.com.

What is sustainable development and why is it important to Cameco?

Find these answers in Cameco's first annual sustainable development report. The report outlines what is important to us, what we are prepared to be judged on, our performance against the commitments made and suggestions for improvement. The report presents a picture of our people bound by a vision to accomplish great things, a common set of values to guide decision-making and a mission to measure our success. View the full report at cameco.com.





Joe F. Colvin ^{3,5}
Kiawah Island, South Carolina, USA
 President Emeritus (President and CEO from 1996 to 2005) of the Nuclear Energy Institute in Washington, D.C.



Harry D. Cook ^{2,3,5}
La Ronge, Saskatchewan
 Chief of the Lac La Ronge Indian Band in Saskatchewan and President of the Kitsaki Management Limited Partnership from 1987 to 2005.



Gerald W. Grandey
Saskatoon, Saskatchewan
 President and Chief Executive Officer of Cameco.



Nancy E. Hopkins ^{1,3}
Saskatoon, Saskatchewan
 Partner in the Saskatchewan law firm of McDougall Gauley LLP since 1984.



John H. Clappison ^{1,2,5}
Toronto, Ontario
 Managing Partner of the Toronto, Ontario office of PricewaterhouseCoopers from 1990 to 2005.

Cameco welcomes a new director

Mr. Clappison brings a wealth of experience that includes involvement in many facets of business for both private and public sector companies in Canada and internationally. His involvement in the strategy, growth and financial oversight of Cameco will be much appreciated by shareholders and management.

Officers



Gerald W. Grandey
President and Chief Executive Officer



George B. Assie
Senior Vice-President, Marketing and Business Development



Terry V. Rogers
Senior Vice-President and Chief Operating Officer



O. Kim Goheen
Senior Vice-President and Chief Financial Officer



Gary M.S. Chad
Senior Vice-President, Governance, Legal and Regulatory Affairs, and Corporate Secretary



Rita M. Mirwald
Senior Vice-President, Corporate Services

Five-Year Financial Summary

Dollars are expressed in \$ Canadian millions except prices and per share amounts.

	2005	2004	2003	2002	2001
Commodity Market Prices (annual average)					
Uranium (spot price in \$US/lb U ₃ O ₈)	\$ 28.67	\$ 18.60	\$ 11.54	\$ 9.86	\$ 8.77
Conversion (spot price in \$US/kgU)	11.60	7.91	5.07	5.09	4.81
Electricity (spot price in \$/megawatt hour)	68.35	49.95	54.24	55.92	—
Gold (market price in \$US/oz)	444.51	409.17	363.64	309.80	270.94
Operations					
Revenue	\$ 1,312.7	\$ 1,048.5	\$ 826.9	\$ 748.3	\$ 700.8
Earnings ¹ from operations	122.8	125.4	75.0	73.4	78.9
Adjusted net earnings ^{1,2}	210.6	184.8	126.9	47.2	56.8
Net earnings ¹	217.6	278.8	208.2	47.2	56.8
EBITDA ³	467.3	423.7	329.2	215.1	234.6
Cash provided by operations	277.5	228.0	249.8	240.9	101.6
Capital expenditures	284.9	148.3	166.8	97.9	60.9
Financial Position					
Total assets	\$ 4,772.8	\$ 4,052.1	\$ 3,431.2	\$ 3,023.3	\$ 3,020.0
Total debt	858.8	518.6	605.4	423.0	554.2
Shareholders' equity	2,363.6	2,160.5	1,894.9	1,692.4	1,662.9
Financial Ratios					
Current ratio (current assets/current liabilities)	2.5:1	2.9:1	3.3:1	3.7:1	4.3:1
Return on common shareholders' equity	10%	14%	12%	3%	3%
Net debt to capitalization	9%	13%	22%	18%	24%
Cash from operations/total net debt	118%	69%	48%	66%	20%
Common Share Data (\$ per share)⁴					
Adjusted net earnings	\$ 0.61	\$ 0.54	\$ 0.38	\$ 0.14	\$ 0.17
Basic net earnings	0.63	0.81	0.62	0.14	0.17
Dividends	0.12	0.10	0.10	0.08	0.08
Book value	6.76	6.24	5.56	5.04	4.98
TSX Market – high	37.50	21.13	12.83	8.11	7.17
– low	18.97	9.54	4.83	4.19	3.96
– close	36.90	20.98	12.46	6.25	6.54
– annual volume (millions)	460.09	490.04	318.60	288.00	274.20
Shares outstanding (millions)					
Weighted average	347.8	342.8	336.8	334.8	332.4
Year end	349.6	346.0	340.6	335.9	334.0
Production (Cameco's Share)					
Uranium production (million lbs U ₃ O ₈)	21.2	20.5	18.5	15.9	18.8
Uranium conversion (UF ₆ and UO ₂) (million kgU)	11.4	9.5	13.3	12.4	11.0
Electricity generation (terawatt hours) ⁵	9.7	10.6	7.2	3.1	2.3
Gold production (thousand oz) ⁶	407.4	321.6	225.9	176.2	250.9
Employees (including subsidiaries) ⁷	1,957	1,802	3,716	3,253	2,948

¹ Attributable to common shares.

² Net earnings have been adjusted for a \$7 million net gain from the sale of Energy Resources of Australia Ltd shares and the loss on restructuring Bruce Power Limited Partnership in 2005, a \$94 million gain on the restructuring of our gold business in 2004 and a \$81 million gain from income tax recoveries in 2003.

³ The impacts of the \$10 million loss resulting from the sale of Energy Resources of Australia Ltd shares and the Bruce Power Limited Partnership restructuring in 2005 as well as the \$123 million gain on the restructuring of Centerra in 2004 have been removed.

⁴ Per share amounts reflect the stock split on February 17, 2006.

⁵ Represents electricity generation for the period May 12, 2001 to December 31, 2001.

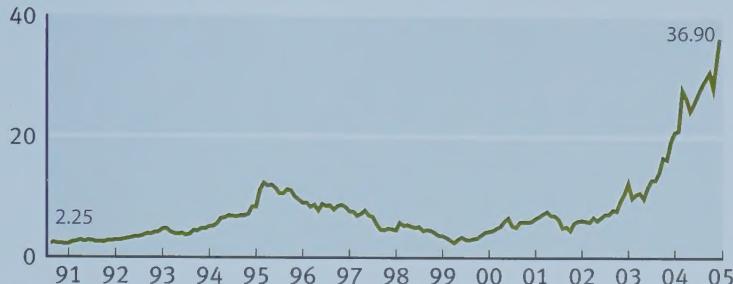
⁶ Represents Cameco's beneficial ownership interest in the Kumtor and Boroo mines.

⁷ The years 2005 and 2004 exclude Centerra and Inkai employees.



Share Performance

(TSX \$/share)*



► Cameco's shares increased 76% in 2005, on top of the 68% increase recorded in 2004.

Common Shares

Toronto (CCO)

New York (CCJ)

Convertible Debentures

Toronto (CCO.DB)

Transfer Agents

For information on common share holdings, dividend cheques, lost share certificates and address changes, contact:

CIBC Mellon Trust Company

320 Bay Street, P.O. Box 1

Toronto, Ontario M5H 4A6

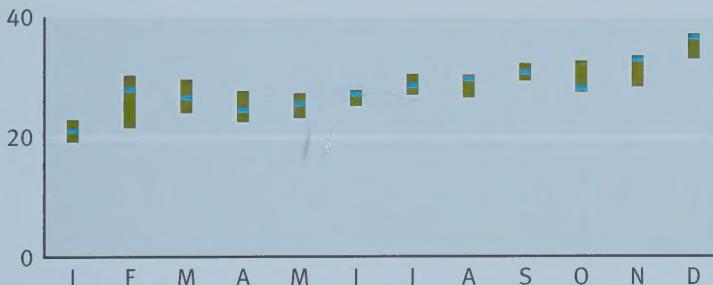
North America phone toll-free:

800-387-0825 or 416-643-5500

cibcmellon.com

Monthly Share Price

(TSX \$/share)*



► Cameco's shares traded between \$18.97 and \$37.50 during 2005.

Annual Meeting

The annual and special meeting of shareholders of Cameco Corporation is scheduled to be held on Thursday, May 4, 2006, at 1:30 p.m. at Cameco's head office in Saskatoon, Saskatchewan.

Dividend Policy

The board of directors has established a policy of paying a quarterly dividend of \$0.04 (\$0.16 per year) per common share. This policy will be reviewed from time to time in light of the company's cash flow, earnings, financial position and other relevant factors.

Monthly Share Volume

(TSX – millions of shares)*



► In 2005, 460 million Cameco shares traded on the TSX compared to 495 million in 2004. On the NYSE, 385 million Cameco shares traded compared to 188 million in 2004.

Inquiries

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December 31, 2005*

Shares outstanding 348 million

Market capitalization \$13 billion



With uranium, Cameco
is powering change.

 Cameco
NUCLEAR. The Clean Air Energy.
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